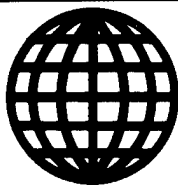


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30 JANUARY 1989



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### Appraisal, Disposition of Unqualified Party Members

40050147 Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 11, Nov 88 pp 25-29

[Article: "Appraisal of Party Members and Appropriate Disposition of Unqualified Party Members—A Responsible Comrade of the Municipality's Organization Department Answers Questions Put by This Periodical's Reporter"]

[Text] **Question:** The all-municipality organizational work conference has made the demand that basic-level party organizations start, at experimental points, the appraisal of party members and the appropriate disposition of those of them found to be unqualified. May I ask what significance there is in this appraisal? Some basic-level units in our municipality constantly appraise party members. Why is there a need to do so at experimental points?

**Answer:** The 13th CPC Congress report, when discussing the building of the party member ranks, said that basic-level organizations must do well regular work in seven aspects. In recent years, party organizations at all levels in our municipality, in enhancing the education in party member management, have in the main been successful and the quality of the ranks of the party members, generally speaking, has constantly improved. However, the phenomenon of the party's not being run strictly is fairly widespread. An enormous effort is needed to truly put on a solid footing the regular work in seven aspects in building the party member ranks. The system in which the democratic appraisal of party members is gradually put into practice is a way of doing this. Practice in many units shows that this way not only has important significance for doing well the work of appropriately disposing of unqualified party members, but also is an effective way now to enhance and improve the education on party member management and to promote the display by party members of their role as exemplary models.

The work of starting the democratic appraisal of party members is not the same as that of the summing up of individual party members in the past. It is also not the same as the periodic analyses of party members by party organizations. The guiding ideology for this work is the guiding principle of the spirit of the 13th CPC Congress, namely: insist that the party be run with strictness, enhance the education on party member management, and emphasize the importance of the basic quality of the great majority of party members; and, at the same time, appropriately solve the problem of unqualified party members and make an effort to build a contingent of party members that can stand the test of exercising political power and of making reforms and opening up to the outside. Thus, the appraisal of party members cannot just stop at a general putting forward of opinions or "appraising and urging." In accordance with the standards for party members stipulated in the party constitution, we must come up with a

method of democratic appraisal that integrates the individual with matters inside and outside the party, so as to make a comprehensive evaluation of the party member. On the foundation of persevering in ideological education, we must appraise and appropriately dispose of the small number of unqualified party members and truly solve the existing problem, which is of a trending nature, of party members, playing their role as vanguard exemplary models.

The work of appraising party members and appropriately disposing of those found to be unqualified covers a fairly broad area and has a fairly strong policy nature. Therefore, it must be done vigorously but safely, and "superficiality" in doing it must be avoided. For a period of time, although in some units the work of appraising party members was started and some experiences in this respect were gained, speaking of the municipality as a whole, these units were mainly concentrated in the rural areas and in enterprises; therefore, it is necessary to expand the range of experimental points. At the same time, speaking of the majority of experimental-point units, they have not yet come up with fairly mature experiences in how, through appraisal, to solve appropriately the problem of unqualified party members. Therefore, the municipality party committee has called on organizations, factories, villages, schools, hospitals, cultural departments, political and legal departments, and economic law-enforcing departments to conduct experiments at selected points. They are to stress the study of the demarcation line in the standards and policy for unqualified party members and are to accumulate experiences in doing good democratic appraisal of party members and appropriately disposing of those found to be unqualified. Good preparations should be made to start this work all over the municipality, so that it becomes a regular task of basic-level party organizations.

**Question:** How is this work of appraising party members to be done? Must the "cases of the qualification of party members be recognized, appraised, tried, and decided"?

**Answer:** In line with the experiences of some units, there are usually five steps in doing this work well. The first step is to make conscientious investigations and studies in order to get a fairly good idea of the existing problems of a trending nature among the party member ranks and the existing problem of unqualified party members. The second step is to conduct thoroughgoing ideological education and integrate it with reality. Party members should be given an education in running the party with strictness and in the standards of a party member. They should be given an education in party spirit and discipline. The third step is to organize and start the democratic appraisal. With the standards for party members stipulated by the party constitution and with the demands put on party member cadres as the basis, the focus of the appraisal should be on whether, in reform and opening up to the outside and in socialist modernization, party members can maintain the standards set

for them and display their vanguard model role. All units may, proceeding from reality, make some rules with regard to the specific content of the appraisal. They also may, on the basis of their overall appraisal, sum up the outstanding problems of party members in displaying their role, thereby conducting the appraisal in a focused way. The fourth step is to do good work, seriously and appropriately, in organizing and disposing. The fifth step is to improve the work of education on managing party members. Focusing on existing differences, the plan for "contending for excellence and blazing new trails" should be revised and measures taken to implement and improve it. The organizational system should be perfected and the advanced commended, thereby putting this education on a sound footing.

When starting the appraisal we should get a good grip on four links: The first link is the summing up by the individual party member. In line with the appraisal qualifications, the party member is to sum up, in the spirit of seeking truth from facts, his situation in playing a vanguard model role, affirming his achievements and seeking out his shortcomings. The second link is the mutual appraisal by party members, which means that in general the party branch should hold a meeting at which this is done. The third link is to solicit opinions from the masses outside the party. The fourth link is that in which the party branch makes its summation and analysis. It should hold a meeting of its standing committee and, in line with the individual's summation and the party's internal appraisal, the masses' opinions, and the party member's actual behavior, with regard to those who really are not prepared to meet the qualifications of a party member, after examination and review by the higher level's party committee, determine who are the unqualified party members. The meeting should give the other party members specific ideas as how to play their vanguard exemplary role.

All party members must take part in the appraisal work. However, it is inadvisable for them "to recognize, appraise, try, and decide cases of qualification." Rather they are just to determine who the unqualified party members are. This practice will be beneficial for avoiding ambiguity and unclearness about the standards and concept of "qualification" that would make them difficult to grasp. It will also be beneficial to the great number of party members and masses, in line with the party member standards, to make the appraisal in a way that seeks truth from facts; to promote the better playing by the great majority of party members of their vanguard role; and to concentrating on solving well the problem of unqualified party members. During their appraisal some units both determine unqualified party members and pick out excellent members, so that the work of appraisal is closely connected with the activities of "striving for excellence and blazing new trails."

Question: How is it determined that a party member is qualified or not? Is it possible to come up with unified standards.

Answer: In the party constitution the provisions for the standards of party members are mainly embodied in articles one, two, and three. These provisions are our fundamental basis for judging whether a member is qualified or not. Any party member who meets these demands and strives to play a vanguard exemplary role is a qualified member. Otherwise, he is not qualified or is not as qualified as he should be. From a look at the present situation in the party member ranks in Beijing Municipality, we see that the prominent manifestations of being unqualified party members are: They have lost their belief in communism, their revolutionary will is waning, and they do not perform the duties of a party member; individualism is growing among them, they use their power of office for private ends, they seek private gain at public expense, and they encroach on the masses' interests; and for long periods of time they do not take part in the party's organizational work, do not pay party dues, do not do the work assigned to them by the party organizations, and do not play the role of a party member. The behavior of this kind of party member runs counter to the demands stipulated in the party constitution. This kind of party member is unqualified, and he should be disposed of seriously and appropriately. Other party members violate party discipline, and for them we must make specific analyses and must not say that all of them are unqualified. However, we must also deal with them in accordance with the provisions of the party constitution. With regard to the question of those party members about whom conclusions were drawn and action taken during party rectification, and who have already recognized their mistakes and corrected them, we should not make this the basis for examining them to see if they are qualified.

In determining whether a member is qualified, the party organization must, in the spirit of bearing a high degree of responsibility and with a conscientious and serious attitude, make clear the specific situation of the individual member and correctly grasp the policy's line of demarcation. This point has already been covered in the documents of the all-municipality organizational work conference and in an article in issue No 9 of the Beijing periodical ZHIBU SHENGHUO, and so it need not be repeated here.

Question: How are members appraised as unqualified to be disposed of? Will they be advised to leave the party and will they have their names expunged from its rolls?

Answer: The appropriate disposition of unqualified members is a question related to the party's maintenance of its advanced nature. Therefore, we must not take a laissez-faire attitude toward unqualified members. We also must not just give the education and organizational discipline. In line with the demands of the all-municipality organizational work conference, in disposing of unqualified members we must firmly implement the policy set by the Organization Department of the CPC Central Committee, namely, "uphold standards, get a footing in education, differentiate disposition, and administer comprehensively." When organizationally disposing of unqualified members, we must, in line with

the provisions of the party constitution, differentiate situations and deal with them separately. If an individual's basic quality is too poor and he is too far from meeting the qualifications of a member, and if it has been determined that he is unqualified and is causing bad effects on the masses, or if after being suspended during party rectification he is still unqualified, he must be advised to leave; if he refuses to do so, his name must be expunged from the party's rolls. With regard to those who, although unqualified, sincerely want to correct their mistakes and impose the member standards on themselves, we will adopt the method of setting a fixed period for them to correct themselves, during which they will be helped by education. After going through this period of education, if a member still does not possess the qualifications he should have, his name will be expunged from the party's rolls. A member who does not take part in the party's organizational life for 6 months, or who does not pay his party dues, or who does not do the work assigned by the party will be automatically expelled from it and his name will be expunged from its rolls. With regard to an individual who is no longer willing to perform his party duties and to accept the restraints of party discipline and who asks to leave the party, his request should be approved. In disposing of unqualified members, we must strictly carry out the procedures for organizational disposition as stipulated in the party constitution. If a member's name is expunged from the rolls, if he is advised to leave, or if he is given a set period in which to correct his mistakes, he must conscientiously come up with his explanation and defense of the charges against him. In line with the principle of the minority subordinating itself to the majority, a vote will be taken and reported to the next higher party organization for examination and approval. If a member asks to leave the party, it will be announced that his name has been expunged from the rolls and this fact will be reported to the next higher party organization for the record. We must do good ideological work on those who leave the party so that they are encouraged to be good citizens.

Question: Should the masses be asked to take part in the appraisal of party members? What is the advantage in soliciting opinions from the broad masses and how should it be done?

Answer: Closely integrating with the masses and making a point of asking for their opinions is a fine tradition of our party. The appraisal of members will mainly be done within the party. At the same time we should conscientiously solicit the opinions of the masses. This practice is advantageous for the member, from the opinions of the masses, to see his shortcomings, so that he consciously puts himself under the supervision of the masses and better plays his vanguard exemplary role; is advantageous for the party organization to understand comprehensively the situation of a given party member and to

improve the quality of the work of appraising party members, so that the disposition of unqualified members is put on a good mass foundation; and is advantageous for making the party organizations' relations with the masses closer and for enhancing the appeal and cohesion of these organizations. Therefore, during the appraisal the party branch must take seriously and conscientiously organize the work of soliciting opinions from the masses. From a look at the practice of some units in doing well the work of soliciting opinions, we see that, first, they make a point of conducting propaganda and mobilization, so that the masses understand the objective and significance of the appraisal of members and are clear about its content. Second, they make a point of soliciting opinions from all sides, but do not make this solicitation a mass movement. Third, they adopt suitable forms, such as holding forums and having individual chats. Fourth, they cherish the enthusiasm of the masses in giving opinions and absolutely forbid the dealing of retaliatory blows to those of the masses who give their opinions. Fifth, on the basis of their analyses they pass on the masses' opinions to the individual member or make them public within the party, thereby causing the members to begin correctly criticism and self-criticism.

Question: Looking at the current situation, are there any ideological obstacles to the work of appraising party members? What demands are imposed on basic-level party organizations and party members to insure the success of this work?

Answer: There still exist problems in which some comrades have misgivings about and difficulty in understanding the democratic appraisal of party members and the appropriate disposition of those who are found to be unqualified. The main problems are: They fear that the disposition will not be accurate and that there will be relapses, they fear that the appraisal and disposition will be done in a superficial way and that there will not be sufficient confidence in them, and they fear to offend others and cannot express their feelings. These worries are not advantageous to doing good work in appraising members. Therefore, when starting this work we must, from beginning to end, pay attention to the enhancement of ideological education and to the overcoming of ideological obstacles, so that the party members understand that running the party with strictness is an important principle in party building; become clear that starting the work of appraising members and appropriately disposing of those who are found to be unqualified are important and necessary; clear up confused notions about the standards for members, strictly uphold these standards, and correctly draw the line of demarcation in policy; and understand that a communist party member must uphold the principle of the party spirit, must understand the principle of not giving thought to personal gains and losses, and must overcome the idea of being a "good old boy."

## NATIONAL AFFAIRS, POLICY

### Minister Cited on Increasing Real Estate Business

OW1212213488 Beijing XINHUA in English  
1035 GMT 12 Dec 88

[Text] Beijing, December 12 (XINHUA)—Foreign investors will be allowed to engage in the development and management of real estate in China, Minister of Construction Lin Hanxiong said today.

Speaking at an ongoing national conference on construction here, Lin said that the central government will consult foreign laws and regulations to step up the drafting of laws concerning real estate in China.

He disclosed that the State Council will hold a special meeting in the near future on a series of policies and measures for the industry.

According to statistics, there have been over 270 trade fairs of real estate in the country. The business scope has also expanded from simply trading ownership to complex management including sales, leasing and mortgages.

The minister said that the industry has just begun in China, and the government should make sure it is controlled properly.

Now there are about 2,700 companies nationwide engaged in the real estate business.

It is estimated the country builds over 40 million square meters or 15 billion yuan worth of commercial housing projects a year. Real estate in the cities is worth about 1,000 billion yuan.

### Planning Commission Sets Demands for Campaign

OW1012122188 Beijing XINHUA Domestic Service  
in Chinese 1246 GMT 7 Dec 88

[Local Broadcast News Service]

[Text] Beijing, 7 Dec (XINHUA)—At a recent national planning conference, the State Planning Commission made arrangements for carrying out a nationwide "double-increase and double-conservation" campaign [the campaign to increase production and practice economy and to raise revenues and reduce expenditures]. In this regard, the following demands were put forward:

First, it is necessary to closely integrate the "double-increase and double-conservation" campaign with the strengthening of enterprise reform. In this way, the goal of increasing production and practicing economy in the course of reform can be attained. The major objectives of the enterprise reform next year are: to continue to improve the contract system and the relevant supportive measures, to introduce a mechanism for competition, to practice an effective management system in enterprises, and to tap the

potential of enterprises by ensuring the proper use of personnel and materials and work efficiency.

Second, great efforts should be made to lower material consumption. Next year, we should strive to achieve a steady reduction of 70 percent or more in the per-unit consumption of the 105 major products under state appraisal, particularly the per-unit electricity and energy consumption. From next year's first quarter on, we should conduct a strict evaluation and inspection and conscientiously lower all consumption.

Third, it is necessary to conserve circulating funds and to reduce their possession. While striving to reduce loans, the banking department, nevertheless, should extend loans in consideration of the conditions of the borrowers, support ill-managed enterprises, impose restrictions on poorly-managed ones, and guarantee that enterprises which are the backbone get the necessary funds for buying next year's raw and processed materials in order to solve the problem of circulating funds. Industrial enterprises should consider the interest of the whole and follow the unified arrangements made by the central authorities. From now on, they should take measures and make great efforts to inventory their stocks, to reduce overstocked products, to accelerate capital turnover, and to widen the source of capital funds.

Fourth, great efforts should be made to achieve a turn from deficits to profits. On the one hand, those enterprises that earn large profits and pay high taxes should strive to increase their income further. On the other hand, those enterprises that incur losses should set a timetable for achieving a turn from losses to profits. Measures such as merger, auction, and transfer should be resolutely adopted to deal with enterprises that cannot achieve a turn from longstanding losses to profits, so that the total losses incurred by enterprises next year will be noticeably smaller than this year.

Fifth, it is necessary resolutely to reduce nonproductive expenditures. At present, the sharply increasing nonproductive expenditures, such as institutional purchase expenses, enterprise management expenses, and especially travel expenses, conference, expenses and entertainment expenses, are creating a huge waste and causing complaints among the masses. All enterprises should strictly enforce financial discipline, resolutely reduce irrational expenditures, and save on all expenses in accordance with the instructions issued by the State Council in its recent documents.

### Contract System Promoted in Enterprises

OW0912201688 Beijing XINHUA in English  
1312 GMT 8 Dec 88

[Text] Beijing, December 8 (XINHUA)—The contract system in China's enterprises has made considerable progress, and by November 31,417 local enterprises had adopted this system, Chi Haibin, vice minister of finance, said here today.

The proportion of the contracted enterprises to the total has increased to 84 percent this year, from 60 percent in 1987, Chi said.

The contracted enterprises have assigned production targets to their workshops, basic production groups and even to individuals so that output can be tallied with effort.

From January to October, the output value and profits of contracted enterprises were, respectively, 13.4 percent and 20.6 percent higher than those of the same period last year.

However, the taxes turned over to the state from these enterprises declined by five percent compared with the corresponding period last year, Chi said.

According to the vice minister, the contract system will be further strengthened next year.

The system will be implemented in profit-making enterprises as well as in unprofitable ones, and competitive public bidding will be further encouraged, he said.

#### **Economists Disagree on Controversial Reform Issues**

40060149 Shanghai SHIJIE JINGJI DAobao  
in Chinese 5 Dec 88 p 7

[Article in Special Topic column by Zhao Lukuan 6392 1462 1401 and Yang Xiaoren 2799 7555 0088: "Ten Years of Reform in Retrospect—Views on Some Controversial Issues"—first paragraph is source-supplied abstract.]

[Text] *Within the confines of a product economy, "yielding power and profit to the lower level" is not a solution. It often leads to a trap where "decontrol means chaos, and uniformity means rigidity." The "double track system" decontrols part of the market, but because market mechanisms have not been installed, we unwittingly provide the rich breeding ground for "official profiteering" caused by the old political system. The government's role as enterprise owner in a commodity economy is the root cause of the macroeconomic chaos since the devolution of power and profits to the lower level. The so called "osmotic integration" of two different systems leads enterprises and workers to maximize their present income. The abolition of the "double track system" may bankrupt some township enterprises, but on the whole, this is logical. Decontrolling the labor market is a key link in market reform and is also a key link in enterprise reform. We can firmly establish the microeconomic foundation for the commodity economy only if we can successfully promote the stockholding system and decontrol the labor market.*

China's restructuring of the economic system has run into problems. News of price reform has just gone out, and even before it is official, it has triggered panic buying and bank runs.

This may be the preface to the smooth sailing of reform from now on. The early stage of reform has been turbulent mainly because our reform theory was inadequate. Although we have set the goal to establish a socialist commodity economic system, we are still confused about some issues.

#### **I. The "Devolution of Power and Profit" Within the Confines of a Product Economy Is Not the Solution—We Must Replace the Product Economy With a Commodity Economy**

When reform first began, we started out with the "devolution of power and profits to the lower level" within the framework of a product economy. Specifically, in management, we apportioned the administrative authorities, and in distribution, we allocated a percentage of the profit to the administrative organs and so on. This was because at that time people only noticed the superficial defects of the product economy, that is, the overcentralized control and the total lack of flexibility.

But highly centralized management is necessary because of the inherent operating mechanisms, the operating objectives, and the structure of rights and privileges in a product economy. Without a highly centralized, uniform management, the product economy cannot function normally, and the economy will be thrown into chaos. Early attempts at reform often fell into the trap where "decontrol meant chaos and uniformity meant rigidity." That was the best disproof.

#### **II. The "Double Track System" Suffers a Setback: The Operating Mechanisms of the Two Different Systems Are as Incompatible as Fire And Water**

The idea of "bringing in the market mechanisms" at the second stage of reform is important because it defies the conventionality of the old system of product economy. But at the beginning, it was guided by the concept of integrating the product economy and the commodity economy "piece by piece." The core idea was to have two sets of control, "planned" and "out-of-plan," over each product to partially decontrol the market. But the market mechanisms failed to materialize, and not only that, we also unwittingly provided the breeding ground for the "official profiteering" caused by the old political system.

Those who advocate the "double track system" maintain that introducing market mechanisms means letting enterprises set their own prices. They in reality have mistaken the "devolution of power and profit" within the confines of a product economy for the market mechanisms of a commodity economy; their interpretation of the commodity economy's market pricing mechanism is erroneous. The most basic requirement for developing market mechanisms is the free circulation of products and key elements so that there can be fair competition and equal opportunity. Therefore, to develop market mechanisms, first, we must remove all administrative obstacles and eliminate or limit monopoly



so that goods and key elements can circulate freely. Then, depending on the supply and demand conditions, we can gradually decontrol prices. We must not decontrol prices if products and key elements cannot circulate freely.

Amid the controversies, one school maintains that the key to augmenting the market mechanisms is to "straighten out prices." We disagree with those who object to even essential price adjustments at this time, but we think the present price adjustments should be temporary. Their limited objective is to use administrative measures to speed up the construction of market mechanisms rather than to reform prices. Price reform can be implemented only after the market mechanisms are basically in place. At this time, prices can only be adjusted under state control. If, unlike in the pre-reform era, prices are adjusted not in response to administrative signals but to market signals, and if they are based on a fairly reasonable international market pricing system and on our own industrial policy, then the adjustments nevertheless can be beneficial. Such adjustments will not bring instant success, because prices also hinge on the level of labor productivity. Because there is state control, the nominal rise in the price level resulting from this kind of adjustment does not portend inflation nor an increase in the government's financial burden. It only signals an adjustment of the value of paper money (a form of price).

Among the controversies, some people think that price control is taboo in a market economy; it robs the market of all of its vitality. In a market economy, price control may be invoked only in an emergency. But at present, China does not have a market economy, nor do we have a suppressed-demand economy. Both supply and demand are inelastic, and therefore the decontrol of prices will not modify supply and demand; it will only create an upward price spiral, restore the old price parities, and further upset the industrial structure. This situation is very similar to an emergency situation in a market economy. From a practical standpoint, China's present short-term price control may turn out to be a wise choice. In the absence of bona fide enterprises and a market, monetary and financial policies often have limited effects. Allowing the products and key elements to circulate freely until supply and demand become more elastic before decontrolling price seems to be a practical interim method to get the economic reform out of the present predicament.

Of course, we can only allow products and key elements to circulate freely step by step. Each product and each key element should be treated as an individual unit, and we should open up one market at a time. This method will guarantee that each market is a complete unit and can therefore build its own market mechanisms. Among the disputes, some people have suggested that it is not practical to open up one market at a time, because the price increase following the decontrol of the market of some products or key elements will affect the prices of products still under control. Such anxiety is the product of the old concept that "market decontrol means price decontrol."

### III. Osmotic "Integration" Is Pure Fantasy: The Operating Objectives of the Two Systems Are Entirely Different

The idea of osmotic "integration" of the two different system has always been a part of the controversy over the interrelationship between "planning" and the "market."

Planning in a commodity economy is the government's own economic policy goal as it regulates the market. This plan need not be handed down to enterprises nor workers at the lower level, nor is there a need for direct administrative measures to interfere with the conduct of enterprises and workers. The government only has to control and adjust the economic parameters to indirectly make the behavior of enterprises and workers satisfy its policy goal.

In this respect, the present contract management responsibility system and the method of linking enterprises' total wage bills to their profits are still clinging to the economic planning of the product economy, because administrative measures are still being used to govern enterprise and worker activities. There is an administrative "cage." They are a part of the osmotic "integration" of two different systems.

In a commodity economy, enterprises and workers have their own standard economic goals. For example, in a commodity economy, enterprises depend on the appreciation of their asset value in order to grow, in other words, they are autonomous economic bodies whose goal is to maximize the profit margin of their long-term funds. The workers, on the other hand, are economic bodies whose goal is to maximize wages. If the government uses administrative measures to set different economic goals for enterprises and workers and force them to deviate from the norms of the commodity economy, the market mechanisms will break down. This is why there were no spontaneous market mechanisms after China decontrolled prices. Facts prove that osmotic "integration" of the two systems is unworkable.

Based on the above contract and linkage systems, upon turning over a part of their profit to the higher authorities, enterprises can share the remaining revenues. This method in fact encourages enterprises and workers to maximize present income, as demonstrated by enterprises' fight to control the right to set prices—so that they can raise the prices and wages and boost their profit, or by their fight for investments and loans—to fulfill their goal of quick success and instant profit. This is the main underlying reason for today's inflation, rising demands, low worker morale, and shrinking supply.

Among the disputes, some people feel that the poor "climate" is the main obstacle to price adjustments and decontrol and that if we can control the money supply, we can decontrol prices. This view has overlooked the fact that behind all the economic mechanisms, there is the profound issue of operating goals. Today's inflation and shortages are not because enterprises and workers

have deviated from the standards of the commodity economy, thus creating the inflationary microeconomic mechanisms; the inflation is partly the result of inflationary pressure generated by local governments when the state practices "eating in separate kitchens."

Amid the controversies, some even say that today's inflation and shortages are due to our failed macroeconomic strategy. This is only the secondary factor. If we have inflationary microeconomic mechanisms, no matter how we try to change the macroeconomic policies, inflation cannot be halted. A loose macroeconomic policy can only "add fuel" to the existing inflation, and a tight policy will have only limited, temporary effect on controlling inflation. Besides, if the tight policy is not applied properly, it could restrain supply.

As a result, today, more and more people have come to emphasize the need for a microeconomic foundation in the commodity economy, advocating the remodeling of enterprise operating mechanisms as the breakthrough point. But so far, its meaning is obscure. Some say it means letting enterprises operate independently and take care of their own profits and losses. This kind of generalization misses the mark. Taking care of their own profits and losses is only the perfection of the enterprise-restraining mechanisms. As far as the enterprise operating mechanism is concerned, basically, we should perfect the mechanism which gives enterprises impetus, in other words, enterprises must have the correct operating goal.

#### **IV. The First Step in the Restructuring of the Economic System: Restructure the Rights and Privileges**

The commodity economy and the product economy cannot be integrated mainly because they have conflicting structures of rights and privileges.

China's contract management responsibility system partially separates ownership rights and management rights in the state-owned enterprises; it has touched on the issue of the structure of rights and privileges. This, however, is not the crucial link. Because the manager is the property owner's agent, the two share the same interests. Whether they are separate or one has no effect on the commodity economy's basic structure of rights.

The separation of government and property owner means that the government is no longer responsible for propagating the value of publicly owned assets but is responsible only for regulations at the macroeconomic level. It is not entitled to any of the income generated by those assets, but for its management service and the public goods it provides, it enjoys the reward of macroeconomic management—tax revenues. In other words, the government is neither a manager nor a proprietor. Government and enterprises are entirely separate.

In a commodity economy, when the government assumes the role of enterprise owner, first, it changes the enterprises' operating goal of profit maximization to

government revenue maximization; two, it creates a unique form of monopoly—administrative monopoly, and three, it loosens the enterprise budgetary constraints. These three are the root causes of the loss of macroeconomic control subsequent to the devolution of power and profit.

Amid the controversies, scholars from different schools realize that in order to remold the enterprise operating mechanisms, we must implement property rights reform, otherwise known as ownership system reform. At the moment, what is worrisome is that the separation of workers from managers, which is of equal importance to ownership system reform, has not caught the people's attention.

Under the conditions of socialized greater production, management has become a specialized job to be performed by professionals. The so called "workers' collective management" mixes the interests of the workers and the managers. That is why enterprises no longer maximize profit and tend to maximize the workers' current income instead. This goal does not encourage people to work hard but turn them into greedy people. Imagine, when hard work does not bring higher income, and only in the "right" enterprise which makes money can a worker earn more, who would bother to work?

Among the disputes, some have blamed the constraints of reform on the irrational price structure and the industrial structure, or have blamed the dense population and the backward productive force. We feel that they have only scratched the surface and have not grasped the fundamentals.

#### **V. The Three Essential Reforms: Assemble a Proper Mix of Rights—Correct the Operating Goals—Amplify the Operating Mechanisms**

The difficulties encountered by China's restructuring of the economic system indicate that our reform is at a critical turning point. The initial reform measures which had positive effects in the short-term have run their course, and we must turn to more thorough measures and implement basic reforms which are more difficult and which have no near-term benefits. This means we must start with the assembly of a proper mix of rights in the commodity economy, correct the behavioral goals of the government, enterprises, and individual workers, and amplify the market mechanisms so as to establish a new order of commodity economy. To make these adjustments, we must abandon the "double track system." However, the right approach is not to decontrol all prices, as some people have suggested; on the contrary, the government must retrieve the right to determine prices which has been given up prematurely, at the earlier stage before market mechanisms were in place. The state should control prices temporarily, and meanwhile, the state should adjust the prices of products and

key elements where necessary (the issue of "control" has been discussed as a special topic in SHIJIE JINGJI DAOBAO, 20 June 88.)

After the "double track system" is abolished, "official profiteering" and "civilian profiteering" will be under control. At the same time, some township enterprises which have been competing for raw materials and market shares with the state-run enterprises may go bankrupt. This kind of bankruptcy, on the whole, is rational. When township enterprises lose their price advantage, if they assist the large enterprises as their little partners, it will greatly benefit the entire process of economic reform. Of course we must consider the possibility of social upheaval brought on by this structural change. The abolition of the double track system and the implementation of state price control should proceed systematically.

Under price control, the focus of the restructuring of the economic system will shift to enterprise and market reforms. Enterprise reform means tackling the task of putting publicly-owned assets under a stockholding system and correcting enterprise operating goals. Market reform means making sure that the products and key elements can circulate freely according to market regulations, perfecting market organization, and augmenting and perfecting the tax system and legal system to truly create the mechanisms which allow equal opportunity and fair competition.

Decontrolling the labor market is a crucial link in market reform and is also a key link in enterprises reform, because it can change the enterprises' and workers' goal of maximization of current income and rectify their behavior. At present, only by promoting the stockholding system and decontrolling the labor market can we establish firmly the microeconomic foundation for the commodity economy.

After we build a microeconomic foundation for the commodity economy, the macroeconomic control mechanisms can be installed, and only then will they function effectively. Until then, the state must continue to control essential parts of the economy directly—of course, we want to make the track-changing process as short as possible.

#### **Noted Economist Xiao Zhuoji Interviewed on Economic Reform**

40060151 Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 21 Nov 88 p 2

[Article by SHIJIE JINGJI DAOBAO reporter Mou Jun 3664 6511: "Xiao Zhuoji Again Discusses 'Pursuing Progress Through Reform'—As We Bring Our Economic Circumstances Under Control, We Must Avoid Economic Depression and Any Return to the 'Previous System'"]

[Text] Right now there are three major dangers facing us:  
1) Inflation is out of control and has escalated into

runaway inflation; 2) Production is declining and economic depression may occur; 3) We may revert to familiar patterns and restore the previous system. Reducing demand can only be a temporary solution. We can effect a permanent cure only if we increase the supply side of the equation. We must work vigorously to develop projects that are in high demand, produce high returns, utilize advanced technology, and bring in high foreign exchange earnings. Only in this way can we slowly resolve the discrepancy between overall supply and demand. In the next few years we cannot push additional major elements of reform; we must concentrate our efforts on intensifying reform.

In the last week of July 1988 this reporter visited the noted economist Xiao Zhuoji [5135 3504 1015] at Beijing University's Institute of Economic Management to discuss the problems that had cropped up at that time in China's economic restructuring program. Professor Xiao's thoughts on "Pursuing Progress Through Reform" raised a reaction among Beijing theorists. For that reason I recently visited Professor Xiao again and had the following dialogue with him.

**Reporter:** Right now it is widely felt that the economic situation is very grim. What is your opinion?

**Xiao:** The situation is grim, but there is no need for alarm. We must be optimistic but not unrealistically so. We must maintain a soberly optimistic attitude. The current situation is indeed grim. In August 1988 the nationwide retail price index jumped 23.2 percent, including a 27.6 percent leap in urban areas. The panic purchasing that arose in the last ten days of August demonstrated that there has already been a certain crisis of confidence in the renminbi, and we certainly must not treat this lightly. However, I feel that current conditions for bringing these difficulties under control are very different from conditions that applied after liberation, during the several cycles of inflation that arose in the 1950's, 1960's, and 1970's. Conditions today are much, much better. Of course, we also must not be unreasonably optimistic—we must keep our wits about us. We must make a sober assessment of our achievements during 10 years of reform, realizing that we have made enormous strides and significantly enhanced our economic strength, but also acknowledging that many problems remain. And we should have a realistic understanding of the situation facing us, realizing that conditions are favorable for bringing the situation under control, but also acknowledging the gravity of our problems. We need to be mentally prepared for difficulties and setbacks on the road to reform. Nowadays people often say "It's easy just to ride out the storm." I feel this sentiment is too naive. After we ride out this storm, there may be an even more difficult one on the horizon. The more we intensify reform, the more difficult our task becomes. Generally speaking, reform is beneficial to the development of productive forces, and it is in everyone's best interests. But at a certain point, reform entails the redistribution of authority and interests, and it cannot

help but affect the vested powers and interests of some people. This, in turn, inevitably produces conflicts and friction, and resistance crops up. Thus, people who believe there will be "smooth sailing" for reform in the future are naive.

**Reporter:** In your opinion, what are the major dangers facing us?

**Xiao:** Right now there are three major dangers facing us:

First, inflation is out of control, and severe inflation has escalated into runaway inflation. The general consensus is that if the rate of price inflation exceeds 10 percent, it is runaway inflation. There are four indicators of runaway inflation: commodity price inflation in excess of 10 percent, production stagnation or decline, a widespread drop in urban and rural living standards, and a crisis of confidence in the currency. Right now, all these indicators are to some extent positive in China, with the exception of a decline in production. In particular, we must control inflation next year at a level substantially lower than it was this year. This will be very difficult to do because the rate of increase in currency issue has substantially exceeded the economic growth rate for several years running. In 1988 the amount of currency issued also rose by a large margin over 1987. Currency's delayed effect on price inflation makes it very difficult to control the latter. In addition, capital construction is proceeding on an enormous scale all across China. As of August 1988 there were 47,344 capital construction projects under way, involving a total investment of over 700 billion yuan. Projecting based on the growth trend for the first half of the year, the scale of investment in capital construction may reach 420 billion yuan [as published] in 1988, surpassing the state plan by 120 billion yuan. In particular, it is very hard to control and cut back on non-budgeted projects. Once again, in many places "higher levels set policies and lower levels counter them." A local area's own parochial interests dictate that it will not resolutely support an attitude of control, nor take adequate enforcement measures. Consequently, inflation gets out of control and commodity prices continue to skyrocket. This is an ever-present danger.

Second, production may plummet and an economic depression may occur. Right now, in order to curb inflation we must reduce investment in capital construction and cut some capital construction projects. This is undoubtedly the proper course of action. But the result may be a drastic drop in production, massive unemployment, and economic depression. This is a persistent danger. For example, in order to reduce the investment of fixed assets we would cut a few capital construction projects and halt or slow down some building projects. In order to curb credit inflation the state bank would tighten the money supply and curtail credit, and some production and circulation enterprises would have difficulty maintaining normal operations, not to mention expanding, because of the lack of circulating funds. In order to reduce the pace of growth, production in the

processing industries might also shrivel. Commodity reserves have declined in the wake of several major buying panics this year, and market shortages of goods and materials are becoming more evident. Production stamina might also be reduced due to curtailed capital construction. Consequently, the danger of an economic depression is an objective reality.

Third, there is a danger that we might revert to familiar patterns and restore the previous system. In order to curb inflation it is essential that we adopt certain administrative measures. But many entrepreneurs are worried that in the process of reorganization and the effort to get the situation under control, we might reinstate the old methods and measures that we have previously abandoned, revoke the authority we have already granted to enterprises, and haul the economic mechanisms that recently travelled the track of a planned commodity economy over onto the track of our commodity economy. We might strengthen state intervention, directive planning, and the direct, centralized pattern of administration. Some comrades are concerned that "We may work at microeconomic stimulation for 10 years, while macroeconomic administration dies for only one night." This fear is not entirely baseless. I feel that if we did restore the old system, inflation would only be that much harder to control, price distortions would be more difficult to alter, and the discrepancy between overall supply and demand would grow more serious. The new life and vitality we have recently seen in enterprises would disappear, our recently aroused enthusiasm for developing a commodity economy would be seriously dampened, and it would be difficult to achieve the tasks of industrializing, commercializing, socializing, and modernizing production proposed by the 13th CPC Congress. This would place a serious obstacle in the way of future reform and deregulation! And it would create a problem even more dangerous and more difficult to solve than inflation.

**Reporter:** The issues you have just discussed are very grave. Indeed, right now policymaking strata and public opinion are both concentrating on curbing inflation, and theorists are sounding the alarm. This is very helpful in sobering people's view of the situation. Please tell me, what countermeasures do you propose to forestall a depression?

**Xiao:** Basically, to forestall a depression we must depend upon intensifying reforms, transforming the system, nurturing the market, and exercising the market's regulatory functions. Now, as we bring our circumstances under control, reduce investment, and slow down our pace, we must pay attention to the following three issues:

First, we must maintain a suitable growth rate. This means that economic growth must be tailored to the national financial and material resources, linked to the highest economic returns, consistent with technological progress, and capable of bringing material benefits to the masses.

Second, as we slow the pace of growth, we cannot allow wide fluctuations. We must, so to speak, land the aircraft gently rather than choosing a forced landing. The former method will have relatively slight repercussions for the national economy, whereas in the latter case repercussions will be significant. As we bring our circumstances under control and slow the pace of growth we must make every effort to avoid waste and prevent new waste from occurring due to wide fluctuations.

Third, we must make readjusting industrial composition a major priority. We cannot be arbitrarily uniform in slowing the pace of growth. We should vigorously develop all projects that are in high demand, that produce high returns, that utilize advanced technology, and that bring in high foreign exchange earnings. Only in this way can we fundamentally alleviate the discrepancy between overall supply and demand and essentially bring inflation under control. Reducing demand can only be a temporary measure; we can only get at the root of the problem if we increase supply. Reducing demand is a method that has limited resiliency, whereas considerable resiliency is made possible by increasing supply.

**Reporter:** May I ask what measures you propose for forestalling any restoration of our previous system?

**Xiao:** First of all, in our guiding ideology we must stress "the pursuit of progress through reform" and uphold our general orientation of reform and deregulation. Only if we persevere in reform can we solve our problems, and only then can we have a future and high expectations.

Second, control and consolidation must be subordinate to and consistent with the direction of reform. In order to pave the way for reform, we should not place control and consolidation into an adversative position or allow them to run counter to reform. For example, in order to see quick results it is essential for us to adopt some vigorous administrative methods. But the most important measures must be consistent with the direction of reform and beneficial in stimulating enterprise, and they must expand enterprise autonomy, help to develop the market's role in guiding enterprise, and foster a more perfect market mechanism. They must help us to change the state's economic function and transform its focus from direct to indirect regulation and control.

I reiterate that in the next few years we cannot push additional major elements of reform—we must concentrate our efforts on intensifying reform. This means we must assess our experiences, consolidate the gains we have made in reform, gradually perfect and round out the reform projects already in effect, and ensure that they are exploited as effectively as possible. We need to promote some reform projects that will help us to bring our circumstances under control, such as the expansion of stockholding system test sites and the acceleration of the commercialization and privatization of housing.

Finally, in order to prepare ourselves better for later-stage reforms, we must use this time to study medium- and long-term reform programs, synthesize auxiliary reform plans, and train a contingent of cadres in system reform.

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[Article by Wei Houkai 7614 0683 0418: "Summary of National Symposium on the Theoretical Aspects of Regional Economy"]

[Text] Recently, a national symposium on the theoretical aspects of regional economy was conducted at Hefei, jointly sponsored by the production location group and the regional economy group of the Chinese Academy of Social Sciences, the economics office of the State Planning Commission, and the economics institute of the Anhui Academy of Social Sciences. Specialists and scholars from the Academy of Social Sciences, the Planning Commission, institutions of higher education, and the Academy of Sciences, as well as persons engaged in practical work attended the meeting. The participants thoroughly discussed the major problems of China's present-day regional economy, the accurate evaluation of the central government's policy toward regional economy, and the question of how to establish an academic discipline of regional economics with Chinese characteristics.

#### **I. Break Out of the Grotesque Central-Regional Snare, Restructure the Regional Economy**

Under the traditional economy of plan directives, characterized by an overall centralization, a regional economy of relative independence essentially did not exist. Since the start of the reform, following the shift in China's policy of economic development and in its economic organization, following the change in the mechanism of economic operations and the financial "separation of food kitchens" [i.e. renunciation of the system of "everybody eating from the same big pot"], also after instituting regional contractual undertakings of tasks, the scope of local economic authority gradually expanded. The split into two of authority and control in matters of administration and economics, with the central authorities on the one side and the local authorities and enterprises on the other side, was bound to have two consequences: On the one hand, the expansion of local autonomy led to increased regional economic activity and stimulated regional economic growth. On the other hand, a more impelling profit motivation among the various local interest groups, which lived off their particular administrative regions, caused friction of interests between central authorities and local authorities, and also between the different local authorities themselves. This gave rise to many economic phenomena and actions that hampered the development of the commodity economy and obstructed the growth of markets, as

there appeared, for instance, regional blockades, regional monopolies, etc. Some comrades called this the phenomenon of a "feudal lord economy."

The present abnormal interregional relations between the various regions of China, the serious phenomenon of regional blockades and regional monopolies, the interregional friction and very sharp clashes of interests, are extremely detrimental for the development of China's socialist commodity economy and the formation of a unified market throughout the country. To develop a socialist commodity economy and establish a new market order, China must, first of all, abolish all kinds of customs barriers, must combat all regional monopolies and blockades, and break out of the grotesque central-regional snare, which has withstood all attacks for so long. We must link up with the reform of the economic structure, and while always unfailingly observing interregional and regional interests, we must emphasize the interests of the state in restructuring the regional economy. The abnormal state of interregional relations in China, and the acts of a "feudal lord economy," have deep political, social, and economic roots. Some comrades believe the critical point in the development of regional economies is the emergence of regional economic interests, as these have shown up mainly in two areas: One is the superiority of certain regional resources in key production elements which have shown to be not altogether movable. The other is of an external economic nature, involving the regional environment and characterized by a regional exclusiveness. Due to the present irrational price structure, the degree of opening to the outside world, also due to the central authorities granting favorable treatment in a regionally differentiated, irregular, and unfair manner, it was bound to happen that the regional economic interests became a twisted and distorted mess. With regional economic interests thus twisted and distorted, it is unavoidable that all actions and responses are those of a "feudal lord economy."

Some comrades believe that the viewpoint now prevailing in academic circles has it that a unified national market will become gradually established only if and when the economy will have first passed through the stages of establishing district markets and regional markets. An establishment of regional and district markets, furthermore, is bound to engender, as a kind of side effect, a certain measure of regional commodity blockades and monopolies, which may, in consequence, sharpen interregional conflicts and trade friction. Viewed under the practical aspect of the reform, the shift from having the government act as economic subject to having the enterprises act as economic subjects will require a certain protracted process, and in the present state, when the enterprises have not yet become true economic subjects, it will still be impossible to break out of the grotesque central-regional snare which splits the regional economies into hierarchical, i.e. central government oriented, and regional-oriented forces. Though the hierarchical forces, during their complete dictatorship, might have been able to control the whole country as on

a chessboard, and though they might have given consideration to the overall interests of the entire country, they did harm to the regional interests and the interregional interests, so that it became impossible to arouse local enthusiasm, and so that the result was a lack of vitality in the regional economies. Besides, implementing a strictly hierarchical dictatorship must have the central government as the only economic subject, and this demands, as a precondition, that decisions coming from those in the highest decision-making positions be of a very high quality. Otherwise, if the local governments were to become economic subjects, i.e. become managers of the national economy, and at the same time investing subjects, occurrence of acts of a "feudal lord economy" and splitting up the entire national market could hardly be avoided.

Other comrades were of the opinion that there have been many causes for the "feudal lord economy." First, the bifurcation of authority in administrative and economic matters as between the central authorities and the local authorities, i.e. from the division of administrative powers to the regional contractual management in which the government is main party, has had the effect of giving the local economic rights and interests a relatively independent character. By a regional policy of the central authorities that is not normalized, not complementary, and not equally fair to all, and that, moreover, has committed various mistakes, the economic contradictions, which existed between the "feudal lords" at the time of division of administrative powers, have been further aggravated. Second, the relations between China's enterprises and the local governments have for a long time already been relations of mutual dependence as between father and son. In addition, the regional environmental reaction to the state's involvement in the regional environment was one of exclusiveness, which also reinforced this "feudal lord economy" type of behavior. Third, in the present confused situation of changing over from an old to a new system and of fostering the old as well as the new mechanism, there exists, objectively, a kind of policy-permitted opportunity for speculative benefits or super-profits. While the various local governments haggled with the central authorities to get a policy on a tit-for-tat basis, their actions, since not following properly established norms, on the one hand increased the mutual lateral cohesion among the various places, but on the other hand added to the contradictions between the central authorities and the local authorities.

## II. Formulation of a Correct Policy on Regional Economics by the Central Authorities

Since the founding of the PRC, China has made several mistakes in its treatment of regional economies and in the layout of its industry. For instance, from 1958 to 1960, from the end of the 1960's to the beginning of the 1970's, and after the "smashing of the gang of four," the ideology of the "great leap forward in foreign relations" influenced the layout of China's industries and led to

three "great dispersals." Selection of points for factory installations were decided upon in a way which was divorced from the realities of the location in question, while the great endeavor was merely to "have flowers spring up all over the country" and have them "scattered all over like stars in the sky or men on a chessboard." Especially under the Third and Fourth 5-Year Plans, the state invested over 100 billion yuan in the development of "third line regions," solely insisting that factory locations in the third line regions must "rely on the natural conditions they are in, be dispersed, and concealed," must locate in mountain caves, with the result that returns from these investments were extremely poor. Most of the above-mentioned serious mistakes in economic activities were due to the devious regional policy of the central authorities. Some comrades at the meeting were of the opinion that the basic causes for the widespread "feudal lord economy" type acts and the abnormal interregional relations of the present are also mainly due to the chaotic and unregulated regional policy of the central authorities, which led to a distortion of regional and interregional interests. On the surface, it seems that the cause for "feudal lord economy" type acts is mainly the fact that too broad an authority was granted to local governments, which then led to irregular acts on the part of the local governments, such as overemphasizing regional interests, usurping powers which the central government had delegated to enterprises, administrative interference in enterprises, weakening the functions of the banks, and the use of administrative measures to erect all kinds of trade barriers short of customs tariffs. However, looking at the deeper internal relations, we see that the irregular actions of the local governments are related to the chaotic and ill-defined nature of the regional policy of the central authorities. First, following the successive implementation of the financial "separation of food kitchens" and regional contractual undertakings, the central government evaluated political achievements of local governments by merely looking at a few of their economic indices, such as their product value, tax revenue, and profits. This undoubtedly will have further reinforced the profit motive of local governments and their drive to gain the status of economic subjects. Second, the distorted price system, with the various regional structural discrepancies and the graded policy of preferential treatments, was apt to move commodity values from west to east. Third, too profuse an infusion of preferential policies into certain regions, through capital investments, finance, taxation, foreign exchange retention, etc., caused artificially unfair competition in regional developments, as a consequence of which different regions, while making the same subjective efforts, would not be able to gain the same returns. After local governments gained a relatively large measure of autonomy, at a time when enterprises still had not yet become sole economic subjects of a comparatively independent status, the various local governments, faced with an ill-defined and unfair regional policy of the central authorities, quite naturally reacted in a variety of ways and resorted to appropriate countermeasures.

Some comrades were of the opinion that it is necessary to undertake a comprehensive, fully objective, and systematic evaluation of the central authorities' current policy on regional economies. The dual policy of the central government is one of key emphasis on the eastern parts and providing for a graded expansion, for which there are good reasons: (1) It is a policy that conforms to the beginnings of differential land rents. (2) The key elements of production, such as land, installations, and labor, cannot be easily moved. (3) The policy conforms to the law of uneven economic development. (4) For the more immediate future, its returns will be relatively high. (5) Foreign capital is selective as to the regions for placing its investments. (6) There is a great disparity between East, Central, and West China in capital, profits, and taxes. (7) The state started out from political and ideological considerations. Of course, following the dual regional economic policy of promoting the eastern regions and providing for graded expansion has also some shortcomings, such as: (1) It can produce a "Malthusian effect" and prove detrimental to any harmonious coordination of the eastern, western, and central regions. (2) Allowing each region to freely enjoy the revenue from differential land rent can produce unfair regional competition. (3) The flow of highly qualified personnel and capital toward the coastal regions is detrimental to any development of backward regions. (4) The disparities and differences in the regional policy is apt to induce the setting up of blockades between regions. (5) The clash of the plan-versus-market contradictions may lead to an unrestrained spread of the corrupt practices of the double-track system.

All participants agreed that in order to restructure the regional economies and readjust interregional relations, it is necessary to integrate economic with political structural reforms, work along both lines, and impose restraints in both directions. One is to further deepen the structural reform of the enterprises, strengthen the position of the enterprises as economic subjects, and revitalize the enterprises. The other is to have the central government formulate a systematic policy of regional development that is scientific, up to standards, and fair, and to strengthen the mechanism of fair competition in the regional development. In order to formulate a correct regional economic policy, the central government must, first of all, determine the rational objectives of its regional economic policy. However, opinions differed widely among the participants at the symposium regarding the points of emphasis among the objectives of the regional economic policy. There were on the whole three viewpoints. Some comrades believed that the objective of the regional economic policy should be the achievement of economic efficiency, and not a spatial parity. As it was proposed to give priority to the development of the eastern coastal regions and to set graded maximum growth indices throughout the country, this would indeed conform with this kind of an objective of the regional economic policy. The problem in the past was that the disparity between the different maximum



growth indices was too large, and that sufficient attention was not paid to the maximum growth indices themselves and their agreeing with the regional economic environment. Some comrades were of the opinion that the objective of the regional economic policy is to ensure that the region will achieve economic returns. The central government's regional economic policy should particularly emphasize adjustment of the relationship between the various regions, should create a fair and rational external competitive environment for the economic development of the various regions, and should not sacrifice the interests of some regions to ensure the development of certain other regions. Other comrades again believed that the objective of the regional economic policy must be a combination of long-term and short-term objectives, while at the same time giving consideration to two things: properly proportioned development and efficiency. As a short-term objective, the regional economic policy of the central government should pay attention to efficiency, and should adopt a strategy of intensive development of key points. As a long-term objective, the regional economic policy of the central government should stress spatial equality, should consider the common development of all regions, aim at an all-encompassing prosperity, and for the benefit of reducing the regional disparity in economic development, should employ a developmental strategy of large overall dispersal and small concentrated dispersals.

### III. Establishment of an Academic Discipline of Regional Economics With Chinese Characteristics

All participants at the symposium agreed that China is a developing country with great differences between its different regions, with an uneven regional development, and now experiencing a change in the mechanism of its economic operations, facts which leave much room for studies in regional economics. Approaching their analysis from the different basic concepts of economic regions, regional economics, and the academic discipline of regional economics, participants at the symposium engaged in fruitful exploration of how to establish in present-day China an academic discipline of regional economics with Chinese characteristics.

On the concept of economic regions: Some comrades expressed that the regions dealt with in regional economics are not natural geographic regions, also not administrative regions, but economic regions. An economic region is an economic and social entity composed of the three elements of economic core, economic hinterland, and economic network, which cannot be infinitely broken up. It possesses three basic characteristics: First, it has to have a minimal geographically delineated sphere, and the requirement and absolute condition for any geographic delineation is that there has to be an economic core in it. Second, it is to be of a multi-layered nature, economic regions of different layers may overlap. Third, economic regions are not necessarily identical with administrative regions; its geographic borders are

indistinct or semidistinct areas. Some comrades supplemented this concept by setting forth the concept of the unitary economic region. According to their view, a unitary economic region has to have three large composite elements: an economic core, an economic hinterland, and an economic network, and it is a basic-level economic region that cannot be further subdivided.

On the concept of regional economics. Some comrades expressed the opinion that regional economics comprises simultaneously two levels at different elevation. Viewed from the state level, regional economics is the spatial side of the national economy, and contains mainly interregional economic relations, the law of key element movements, and the mechanics of operations. Viewed from the regional level, regional economics is again national economy but of a regional nature, which mainly comprises dealing with the advantageous qualities of a region, the interests of a region, and the economic growth and economic structure of a region. Some comrades expressed that regional economics and economic regions concern two different concepts. Economic region is an economic and social entity composed of the three key elements, created by human activities. Regional economics, on the other hand, is the economic activity of persons within the economic region. Regional economics comprises such concepts as regional disparities and regional advantages, regional economic structure, regional markets and regional trade, regional interests, and, furthermore, shows the special characteristic of a dual direction. According to the complex contents of whatever is comprised in regional economics, it is a comprehensive type of economics, having all the general characteristics of the national economy. According to the spatial configuration of regional economics, it is also the national economy but as it exists only in a certain space of the earth surface, having distinct regional individual characteristics. Other comrades expressed that even if economic regions are, objectively, existing, the fact that presently China's local governments are still the subjects of regional economies makes management of regional economies still reliant on administrative regions. Studying regional economic questions merely as economic regions may, therefore, be divorcing theory from practice. One solution would be to study the economic strategy and planning of administrative districts while keeping the economic region in mind, and thus establish the ideal borders of the economic region on top of administrative district delimitations, making the outline of the administrative district an organic and constructive part of the economic region.

As to the substance of the study of regional economics, some comrades believed that regional economics would be the study of regional organizational laws within the national economic development from the general perspective of regions. The regional organizational laws of the national economic development are the laws which govern regional economic growth, planning, location, and management in conformity with the overall demand



of the entire national development and the special peculiarities of the regions. Some comrades believed that regional economics is the use of economic concepts to objectively describe and interpret the uneven distribution of resources and the various regional economic phenomena of the world, where there is no absolute freedom to move resources about, and to evolve a theoretical basis for bringing about changes in these conditions. In concrete terms, it comprises both regional and interregional levels, as also the five areas of economic development, economic organization, layout of industry, interregional relations, and regional economic policy. Other comrades expressed the opinion that the study of regional economics must definitely combine theory with practice and orient toward the practice of economic reform. At present, China's study of regional economics still faces the following problems, which await further thorough research by our theoreticians: (1) The position and function of regional economies within the national economy, i.e. how to build a new structure of regional economic division of labor, how to harmonize mutual relations between regions under the conditions of commodity economy. (2) How to delineate scientifically central and regional limits of authority, and how to establish a planning organization of both ranks for macroeconomic regulation and control, i.e. how to set up a restraining system that would spur on local governments and enterprises to regularize their activities. (3) The problem of delineation of economic regions. (4) The problem of structural misplacement, i.e. the problem of the time differential of structural reform as relating to the space in question. (5) The problem of relating the industrial policy to regional policies. (6) The problem of gaining a renewed understanding of China's national condition.

Participants were unanimously agreed on establishing an academic discipline of regional economics with Chinese characteristics, and that it is extremely important to absorb the current research achievements of the West and of the Soviet Union in the area of regional economics. Some comrades gave systematic introductions of Western theoretical sources, developmental processes, and their academic setup of regional economics, as well as of the regional policies in various other countries. Moreover, conforming to the wishes of all participants, a preparatory committee was set up during the symposium for the organization of a China Regional Economics Research Society.

#### **Linking Contract Management System With Shareholding System**

40060168 Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 11, Oct 88 pp 21-22

[Article by Yu Ji 0060 0679 of the State Commission for Restructuring the Economic System: "Combining the Contract Management System and the Shareholding System"]

[Text] The contract management system is a system of management and administration. It fixes, through management contracts, the relationship of rights and duties

between the state and the enterprise so that the enterprise is able to manage itself and also be responsible for its own profits and losses. The shareholding system is an organization form of enterprise property. It concentrates, through share-purchasing, the key elements of production in the enterprise which are scattered or belong to different owners, and proper management is applied. Also, dividends are distributed based on stock ownership and the enterprise is responsible for its own profits and losses. The contract management system places emphasis on establishing a scientific system of economic responsibility, resolving the problem of management style and establishing a regulatory mechanism for one's interests. The shareholding system is geared toward putting the property relationships of the enterprise in order and solving the problem of mixed-up property rights in state-run enterprises. Thus, there is no contradiction between the contract management system and the shareholding system, and the problems of switching from one to the other or having the one replace the other do not exist. The two systems are compatible.

#### **The Contract Management System and the Shareholding System Are Compatible; Each Takes Strong Points From the Other To Shore Up Its Own Weaknesses. This Nicely Embodies the Principle of Division Between Enterprise Ownership Rights and Management Rights**

Division of the two rights is the basic principle behind intensifying enterprise reforms. Through a contract, the contract management system gives management rights to the enterprise, and the state retains ownership rights and conducts indirect control over the enterprise through economic, legal, and administrative means. The strong points of this are that the economic responsibilities, economic rights, and economic interests between the state and the enterprise are made clear, and the state organs are freed from exercising concrete management and administration over the enterprise. The enterprise has the authority to make flexible and diversified selections for its own management style and this resolves the longstanding problem of managers' inability and lack of authority to be responsible for the enterprise because of no management rights. However, certain problems have emerged in the management process after state-run enterprises have undertaken contracts. For example, there has been a real lack of unity among departments representing state-owned assets. Once one government organ is changed after another, it is hard to determine who is the state's representative in ownership of the enterprise. When an enterprise incurs losses, the managers holding enterprise management rights have no ability to be responsible for the losses and can only write it off as a loss suffered by state property. The management contracts have limited duration; this encourages managers to seek to maximize profits within the duration of the contract and neglect the long-term development of the enterprise. These and other problems exist. Thus, in enterprise management contracting, we must also clarify

the property rights relationships and establish mechanisms that are beneficial in keeping restraints on rising enterprise consumption and short-term behavior.

The shareholding system operates through joint investment by the state, the enterprises and individuals and their joint assumption of risks. It clarifies the property rights relationships of the enterprise. The shareholders meeting is the supreme decisionmaking body of the enterprise, and the government and its administrative departments no longer directly meddle in the production and management activities of the enterprise. Cadres appointed from higher levels act as the representatives of state-run shares and participate in administration as shareholders. Enterprise managers carry out their decisionmaking in accordance with the will and interests of the owners and independently carry out production management. This averts the short-term behavior resulting from strengthened material interests in a part of the enterprise. However, the shareholding system which separates ownership and management rights was carried out in a fairly short period of time and itself still needs to be perfected in many areas. For example, how do we set up a strict system of economic responsibilities between owner, manager, and producer? How do we bring enterprise management activities in line with the overall requirements of the national economy? How large a portion should allocation based on capital take in the enterprise profit distributions? Thus, while continuing to try out the shareholding system, we should draw lessons from the experiences of other forms of management.

Combination of the contract management system and the shareholding system draws on the strong points of each, avoids the shortcomings of each, and thus does a fairly good job of embodying the principle of separation of the two rights in enterprises. The contract management system is compatible with the shareholding system; the enterprise carries out overall contract management with the state and possesses the management rights of occupancy, allocation and use with regard to the production materials. The state acts as owner of the enterprise and possesses administration rights to supervise and control the economic activities of all enterprises so that they may accord with the overall development requirements of the national economy. The enterprise issues shares, spreads the management risks of the enterprise and this solves the problem of who is to be responsible for losses. In making distributions, the enterprise first honors its management contract, and the more work it does, the more it will get. The remainder will be further distributed among share holders. This all nicely embodies the socialist principle of allocation based on labor. The shareholding system is compatible with the contract management system. Enterprise property relations are in the form of shares. Enterprise administrative departments, namely the state representatives, also contract with enterprise managers and producers and fixed economic responsibility, division of economic jurisdiction and distribution of economic interests are laid out in the contract. This guarantees the organic integration and

concerted operation of the supply, production, and marketing links of the enterprise and such important elements as personnel, finances, and materials.

**The Contract Management System and the Shareholding System Are Compatible and They Help To Promote Reasonable Adjustments of Industry of Structure, Product Mix and Enterprise Organizational Structure**

Combination of the contract management system and the shareholding system allows the state to adopt different forms of management contracting and different quota systems based on the different situations of each enterprise to assist the development of industries urgently needed by the state, slow down growth in the processing industry, encourage the growth of famous products and products high in demand, and limit the production of unmarketable or overstocked products. Also, after the enterprise has taken on management contracts and then pooled their capital for joint management, the relation problems of enterprise subordination are broken through as is the bondage from financial channels and ownership relations. Regional isolation is no longer a problem nor is departmental division, and reasonable flow of technology, talent and funds is carried out. Throughout the nation this has had a great effect and in this area has already achieved marked results and has become a model of success.

**The Contract Management System and the Shareholding System Are Compatible; This Concerns the Funds of Society, Develops Production and Blazes a New Trail at a Time When State Funds Are Short**

In China, state-run enterprises have three primary sources of funds for expanding reproduction. The first is the accumulated funds of the enterprise itself. The second is support from state financial departments. And the third is bank loans. Enterprise reliance on its own accumulations of funds to expand production is the basic route. However, because state-run enterprises still, to a large extent, find themselves in a state of extensive management, there isn't much ability for self-development. Last year, after the contract management system was spread throughout much of the nation, the economic results of the enterprises saw a huge rise. Despite this, nationwide an average of only 880 yuan of retained profits per person was achieved in industrial enterprises. Subtracting about 200 yuan for funds covering energy, communications and transportation and treasury bonds and debentures, about 300 to 500 yuan for bonuses and welfare funds, and accounting for other kinds of apportioned expenses, the profits remaining for the enterprise to use in developing production don't amount to much. In recent years, the state financial situation has been consistently tight and the state has had no way to give the enterprises tax reductions or tax breaks. The continued rise in commodity prices in recent years has helped bring about an excess of currency in circulation, a rapid increase in loans and a slow growth of deposits, and has left the state with no choice but to draw money off the

market and tighten credit. Under these circumstances, if the state-run enterprises are to expand reproduction, in addition to depending on their own accumulations of funds, state financial support and bank loans, they must find new sources of funds. Bringing the shareholding system into the contract management system is just one such source.

Enterprise implementation of the contract management system has stabilized the economic relationship between the state and the enterprise. Each year the enterprise must follow the stipulations in its contract and use a portion of its retained profits and its bank loans to develop production. Where more funds are needed, the enterprise may issue stock to attract idle funds from all over society. Some of the enterprise's own funds together with a portion of society's consumption funds are turned into production funds and alleviate the contradiction of enterprise shortage of funds. Because the funds raised by contracting enterprises through the shareholding system involve the interests of each shareholder, dividends and bonuses of all shareholders are linked with the economic results of the enterprise. If enterprise management isn't good, the shares will naturally drift away. This brings great pressure and motivation to the enterprise managers. At the same time, enterprises under the contract management system issue shares of stock and use market mechanisms to appraise how good their management is and how high the confidence in their enterprise is. This too will compel managers to earnestly study the ways in which they are employing their funds, improve production and management conditions, heighten levels of administration and economic results and, thus, greatly increase the efficient use of existing funds.

In summary, those factors which allow enterprises executing contract management to find the shareholding system to be compatible are in theory not contradictory. However, in practice the question of how to combine the two systems still needs to be explored. Looking from the present state of the enterprises, I feel that at a minimum the four routes presented below provide options. First, turn money paid as risk security into money paid for shares of stock. Second, use the purchase of shares to transfer possession of enterprise property rights. Third, while trying out the separate account system, turn state funds and enterprise funds into money paid for shares. Fourth, develop enterprise consolidation through shares. That is, enterprises undertaking contract management can use the shareholding system to raise funds and develop production. Enterprises carrying out the shareholding system should also establish a contract management system with the responsibility system at its core. The contract management system and the shareholding system are compatible and will become the inevitable trend in China's intensified reforms of enterprise management mechanisms.

### **Enterprise Groups Inhibited by Administrative System**

*OW1412212488 Beijing XINHUA in English  
0852 GMT 14 Dec 88*

[Text] Shanghai, December 14 (XINHUA)—China's enterprise groups are facing difficulties in their development, according to a report published today.

The 70,000-word report, issued by China's State Planning Commission, is the first one to summarize the development of the 1,000 enterprise groups which have been established since 1984.

China's enterprise groups are conglomerates of plants and companies grouped together to produce one or two major high-quality products with shared technology.

The leading difficulty for such groups is their rigid administration system, the report revealed.

This has led to difficulty in obtaining the funds, technology, and labor they need.

The report indicated that overcentralization of capital, technology, and production is holding back the groups' development.

It urged reforms in their economic and financial systems.

The report pointed out that enterprise groups play an important role in narrowing the gap in economic development between China and the developed countries.

Some 20 experts from universities, institutes, and enterprises in Shanghai took part in the 14-month survey.

### **Over 6,000 Enterprises Practice Shareholding**

*HK1412150188 Beijing CEI Database in English  
14 Dec 88*

[Text] Beijing (CEI)—Over 6,000 enterprises in China are practising the share-holding system, showing that it will soon be officially introduced into the country's economic reform process.

There have appeared also a dozen or so of large and medium-size share-holding enterprises in Shenyang, Shanghai, Guangzhou, and Beijing. The system will be practised in all the state-run enterprises in the Shenzhen special economic zone.

### **Enterprises Suffer Financial Problems**

*OW1612195088 Beijing XINHUA in English  
0901 GMT 16 Dec 88*

[Text] Beijing, December 16 (XINHUA)—Some enterprises attached to the central government departments in Beijing have been found to have problems in finances, taxation, and pricing this year.

Today's ECONOMIC DAILY quoted an official as saying that breaches of financial and economic regulations still exist in such enterprises.

Such enterprises have been most unwilling to co-operate with inspectors sent by the State Council, he said.

The general manager of the Kanghua Information Industry Company refused to allow three tax inspectors to examine [word indistinct] company's books [words indistinct], the paper reported.

The city authorities asked the press to expose these problems to the public.

The paper said some enterprises dodge payment of industrial and commercial taxes, and funds for the construction of energy and communications facilities. They also arbitrarily raise production costs and prices, and pay bonuses and subsidies [words indistinct] company of China Travel Service failed to pay 507,000 yuan to the energy and communications fund for 1987 and the January-October period this year.

## PROVINCIAL

**Beijing Reimposes Price Controls**  
OW0312182788 Beijing XINHUA in English  
0730 GMT 3 Dec 88

[Text] Beijing, December 3 (XINHUA)—As of this month, shopkeepers and businessmen may face a fine of up to 10,000 yuan if they raise prices on 36 categories of goods without permission.

Today's CAPITAL ECONOMIC INFORMATION newspaper says that the price controls have been reapplied to commodities including rice, flour, corn, mutton, beef, eggs, edible oil, apples, and Beijing-made refrigerators, washing machines, black and white television sets, leather shoes, and towels.

The controls were previously lifted on these goods by authorities.

The newspaper says that the re-imposition of price controls is the result of a decision issued by the State Council to regain control over price rises.

From now on, the municipal price administration will give its decision to applicants who apply to raise the price of their goods seven days after receiving the applications, the paper said.

## Raw Material Shortage Impedes Growth of Pearl Delta

HK1412025988 Hong Kong HONGKONG STANDARD  
in English 14 Dec 88 p 6

[By Fan Cheuk-wan]

[Text] A shortage of raw materials threatens development of the Pearl River Delta, a senior adviser to the State Council said yesterday.

In an interview with THE HONG KONG STANDARD yesterday, Mr Yang Zhenhan, president of the Southeast Economic Information Centre Limited, said the influx of imported labour and rapid industrial development had created a potential crisis in the region.

The centre is the only Chinese official economic research institute in Hong Kong funded by the Xinhua news agency.

The centre recently finished a report on development of the Pearl River Delta, one of the richest regions in China.

"The Pearl River Delta is believed to be the most wealthy area in China. It is estimated that about HK\$3 billion is circulating in that region," Mr Yang said.

"The rapid industrial growth in the region has led to an excessive demand for raw material which cannot be satisfied by the supply estimated by the Guangdong provincial plan.

"The huge demand for raw material on the region imposed heavy pressure on the markets in the neighbouring provinces.

"Since Guangdong can afford much higher market prices for the raw material, there are conflicts with poorer nearby provinces since they can't compete with the rich Guangdong enterprises.

"The rapid development of processing industries there also aggravated the massive price rises in Guangdong and also neighbouring provinces for production materials such as metals, steel bars, and cement."

According to the report, prices of important raw material needed by the region's enterprises increased by more than 100 percent when compared with the same period of last year.

"Some enterprises are forced to resort to the foreign market, but they don't have adequate foreign exchange," Mr Yang said.

The academic said the region's demand for raw materials, energy supply, and agricultural product largely exceeded the Guangdong provincial plan.

The growing mobile population imposed heavy pressure on food supply and infrastructure to the region, he said.

"As the living standard of the Guangdong people is being raised, the province's overall demand on electricity has increased so quickly that it can hardly satisfy the industrial demand," he said.

Mr Yang said the problem of power shortages was also caused by the inadequate supply of coal from the northern provinces.

Guangzhou is practising a "three-day week" power saving scheme while counties like Huizhou and Dongguan also stop electricity supply for two to three days a week.

"The coal demand of Guangdong grows too quickly. The state plan has a fixed allocation of coal supply to different provinces and it is difficult for the central government to take care of the extra needs," he said.

"The decrease of grain production in the province this year made another big problem for the Pearl River Delta because food demand of the import labour was not included in the provincial plan.

"Their extra food demand can only be supplied by agricultural products from other provinces, which are also facing similar food shortage problems.

"It is estimated that about one million labourers are now serving as processing workers for the factories set up by Hong Kong businessmen in the Pearl River Delta.

"More than 300,000 labourers migrated to the Pearl river Delta from the other provinces and hundreds of thousands of others from the mountainous regions of Guangdong."

"The imported labour mostly comes from Guangxi, Hainan, Fujian, and Hunan. Hong Kong businessmen spend an average of HK\$700 to employ one worker in the region."

**Guangdong Reports Industrial Achievements**  
*HK1012060188 Guangzhou Guangdong Provincial Service in Mandarin 0400 10 Dec 88*

[Text] Despite shortages of raw materials, energy, and capital, Guangdong's industrial production has still registered relatively great success this year as a result of deepening the reforms. By mid-November the province had fulfilled the year's output value plan of 74 billion yuan. By the end of the month output value was 78.843 billion yuan. Profit, and profit and tax turned over to the state, showed respective increases of 26.41 percent and 15.44 percent compared with the same period of last year. Output plans for half of 38 major products including coal, oil, and steel were fulfilled ahead of schedule. It is estimated that output quotas for power generation, caustic soda, and other products can also be fulfilled.

**Illegal Vehicle Purchase in Guangdong**  
*OW1712144488 Beijing XINHUA in English 1034 GMT 17 Dec 88*

[text] Guangzhou, December 17 (XINHUA)—More than a thousand imported vehicles which were illegally bought and sold in Guangdong Province this year have been seized by the Guangdong Administration for Industry and Commerce.

A spokesman for the administration said today that most of the confiscated vehicles were bought without necessary permits by work units which then tried to evade detection by disguising them with police and army insignia.

Some units tried to get cars out of the province by forging sales certificates, in spite of the fact that the state has repeatedly publicized restrictions on the purchase of imported cars, the spokesman said.

Even members of local public security organizations and governments were involved in the illegal resale of the imported vehicles, according to the spokesman.

A typical case occurred last August, when the Wuhua County Administration for Industry and Commerce in Guangdong seized a Toyota 12-seat mini-bus belonging to the office of the Jiangsu Government's Representative in Shanghai, as the bus was being driven out of the province.

When checking the driver's papers, the administration's anti-smuggling squad found that the Toyota's sale's receipt, customs import permit and transport warrants were all forgeries.

**Hubei Governor Urges Fulfilling Revenue Quota**  
*HK0912100588 Wuhan Hubei Provincial Service in Mandarin 1000 GMT 8 Dec 88*

[Text] The provincial government yesterday evening held an urgent telephone meeting, urging all local authorities to immediately go into action, take resolute measures, make the best use of the rest of the year to increase the province's revenue, and thus fulfill or overfulfill the revenue quota for the year.

Governor Guo Zhenqian addressed the meeting. Having briefed the participants on the progress of the implementation of this year's financial revenue plan, he pointed out: At the moment we are facing pretty serious difficulties with regard to financial revenue. To cite some major problems, various localities have not done equally well in securing financial revenue; the amount of overdue debts that banks have failed to recover from debtor enterprises is huge; enterprises have failed to turn over as much revenue as expected to the province; losses on the part of enterprises have increased, and so.

Guo Zhenqian said: If we do not take action to resolutely solve these problems, huge deficits will be inevitable. In this connection, the provincial government demands that the following measures be carried out.

1. Leading comrades of governments at all levels must take care of the financial revenue issue. All prefectural commissioners, city mayors, autonomous prefectural heads, and county magistrates must personally take care of collection of taxes and revenue and help solve problems concerned. In brief, they must pledge to fulfill the year's revenue quotas.

2. All financial and tax departments at different levels must exert their utmost to keep the collection of tax and revenue under strict control. All due taxes must be collected in full and in time. No unit or individual can refuse to pay taxes under any pretext. At present, it is necessary to pay special attention to the collection of the tax on use of farmland, the construction tax, the salt tax, the cigarette tax, the tax on electric products, and the income turned over by supply and marketing cooperatives at and above the county level.

3. All departments must well coordinate and cooperate with each other so as to do a good job in collecting revenue.

4. It is necessary to enhance our sense of the legal system and strictly enforce discipline. No localities and units are allowed to modify the laws and ordinances on taxation enacted by the state. Any decisions made by local authorities on their own to reduce or exempt taxes must be resolutely rescinded. All practices to embezzle, misappropriate, or retain revenue that should be turned over to the state in violation of financial ordinances and regulations must be banned. It is necessary to seriously investigate and handle all cases of tax evasion. The amount of overdue taxes and the taxes evaded by enterprises must be paid back by a fixed date.

5. It is necessary to tighten the control over the budget and to adhere to the principle of each unit maintaining budgetary balance on its own. All localities and departments must resolutely reduce their financial expenses, and they are prohibited from issuing bonuses at year-end without approval. The practices of arbitrarily issuing bonuses, distributing goods, and giving various subsidies and presents are absolutely banned.

**Shaanxi Sets Targets for Key Enterprises**  
*HK1212020788 Xian Shaanxi Provincial Service  
in Mandarin 0030 GMT 12 Dec 88*

[Excerpts] Shaanxi has decided to optimize the industrial structure and product mix and attain the goal of economic readjustment amid improvement and rectification by focally fostering and developing large tax and profit-yielding enterprises, so as to fundamentally change the province's financial difficulties. From 8 to 12

December, a provincial forum of large tax- and profit-yielding enterprises was held in Changan County, which laid down the development goals for the province's 49 category-1 enterprises of this type for the next 4 years, together with the technological transformation, importation, product development plans, and other measures necessary for attaining these goals. [passage omitted]

The development goals for these 49 enterprises are: By 1992, local enterprises should yield an annual tax and profit of over 30 million yuan, while those subordinate to ministries should turn over 10 million yuan in tax to the state. In accordance with this goal, during these 4 years the 49 enterprises should increase output value at an annual rate of 25 percent and tax and profit at an annual rate of 27 percent. These enterprises should shoulder 60 percent of the normal economic growth rate in the province. They should also provide the province with new revenue averaging 300 to 400 million yuan a year. It is evident from this that these enterprises can play the role of propping up the entire province's economy and finances. [passage omitted]

Vice Governor Wang Shuangxi said in a speech at the meeting that focally fostering and developing large tax and profit-yielding enterprises is an important policy decision in the provincial government's implementation of the strategic principle of focusing development on Guanzhong region while actively developing southern and northern Shaanxi. It is also a major step taken in improving the economic environment and rectifying the economic order. It is a major issue related to the whole province.

According to our information, the province will gradually select a number of enterprises with tax and profit of up to 10 million yuan as category-2 enterprises with large tax and profit yields, and will support them as focal points.

**Shandong 5-Year Economic Achievements Reported**

*SK1712083688 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 16 Dec 88*

[Text] In the 5 years since the 4th provincial party congress, our province has brought a tremendous change to the economic situation thanks to earnestly implementing the general principle of conducting reform, opening to the outside world, and enlivening the domestic economy; of actively enforcing the economic development strategy of opening eastern Shandong to the outside world and vigorously developing western Shandong; of following the guideline of exploiting strong points and avoiding shortcomings as well as of developing localities in line with their local conditions; and of trying our utmost to mount a road of achieving a combination among agriculture, industry, and commerce, and between urban and rural areas, integrating natural

resources utilization with development and the introduction of outside advanced technologies with the establishment of economic associations among localities within the province.

In 1987 the province doubled its GNP, its national income, and its total industrial and agricultural output value over 1980. It pre-fulfilled its strategic target in this regard by 3 years. Its GNP in 1988 is estimated to reach 76 billion yuan, for a 17.1-percent increase over 1987; its national income, 68 billion yuan, for a 17.8-percent increase over 1987; and its total industrial and agricultural output value, 147 billion yuan, for a 23.3-percent increase over 1987.

Over the past 5 years our province has achieved stable development in agriculture. On the basis of first scoring more than 25 billion kg of grain output in 1983, the province realized 33.9 billion kg of grain output in 1987 and also showed a greater increase in the output of cotton and peanuts.

Our province has begun to lay an industrial foundation with a harmonious proportion between heavy and light industries, a satisfactory variety of industrial production sectors, and an initial standardization of industrial production. To date, it has become an important industrial production base in the country.

Over the past 5 years, industrial growth, economic results, and reserve strength have increased comprehensively. Industrial production arrangements and structure have become more reasonable. The southwest, middle-south, and northwest areas of the province, which have weak industrial foundations, have achieved more rapid development than before.

Over the past 5 years our province has fostered a commodity circulation system with multiple business partners, styles, and channels, thanks to the brisk and dynamic markets in both urban and rural areas. From January to November this year, the province realized 43.5 billion yuan in its retail sales of social commodities, for a 29.5-percent increase over the same period in 1987.

**Yunnan Security Teams Fight Drug Trafficking**  
*HK0812123988 Hong Kong ZHONGGUO TONGXUN*  
*SHE in Chinese 1530 GMT 7 Dec 88*

[Special Feature by Mu Zheng 2606 2973: "Fighting Drug Trafficking Along the Yunnan-Burmese Border"]

[Text] Beijing, 7 Dec (ZHONGGUO TONGXUN SHE)—As border trade between Yunnan and Burma is getting brisk, some desperados who want to make staggering profits through drug trafficking have also intensified their activities in this border area. In Jinghong, where the government of the Xishuangbanna Autonomous Prefecture is located, one can see antidrug-trafficking posters everywhere. The posters told this story: A 6-member drug trafficking gang was arrested when they

were trafficking in 1.6 kilograms of heroin and a larger quantity of opium. The leader of the gang was executed, and other gangsters were sentenced to long-term imprisonment.

In a bus from Jinghong to Daluo Pass near Menghai Village, a customs officer told me that drug addicts had appeared in China. In an antidrug action, he confiscated a quantity of opium and seized a small package of opium from a drug smuggler, then he dropped it into a charcoal fire. At that moment, the drug addiction showed its effect, and the addict dashed the charcoal fire and swallowed the whole package of burning opium.

Ruili and Wanding are two border towns in Dehong Prefecture where border trade is more active. Along the 500-kilometer highroad from Dali City to these border towns, four drug inspection stations have been set up. I personally witnessed a drug searching action on a Monday afternoon. My bus from Baoshan to Dali was suddenly stopped by the border inspectors with a small red flag. Three uniformed inspectors got on the bus to check the identity documents of all passengers, then inspected their luggage piece by piece. An inspector in his 40s asked the passengers who owned the bundle of sugar canes on the luggage shelf, and no person answered. After checking the tickets, a man in his 40s was handcuffed and brought out of the bus together with the sugarcane bundle. Then, the inspectors found a dagger at the waist of the man, who later admitted that he had hidden several kilograms of opium in the sugarcane bundle.

The border inspectors told me that they are able to distinguish the smell of opium through special training. This time, the suspected drug trafficker was not an experienced one, because he did not tie the sugarcane bundle tightly.

The bus driver told me that according to the accent, he thought that the drug trafficker is a local person. He said the strict inspection measures had been carried out for several months in the border areas, but it was the first time a drug trafficker was captured on his bus.

The border inspection stations were heavily guarded. Once I got off the bus to buy some fruit and brought along my camera, and I was suspected of taking photos and was harshly scolded by the inspectors.

The Yunnan-Burmese border areas are just several hundred kilometers away from the Golden Triangle, the border areas of Thailand, Laos, and Burma and the base of international drug trafficking gangs. So the drug traffickers naturally try to get access to the Yunnan border areas in their drug trafficking activities. As the border trade between Yunnan and Burma is getting more and more active in Ruili and Wanding, many traders from China, India, Pakistan, and Burma gathered in these border towns. This provides opportunities for drug traffickers to sneak into the ranks of the merchants.



Recently, the public security and border inspection departments in Yunnan Province have actively organized strength to check and suppress the drug smuggling activities.

## FINANCE, BANKING

### Vice Finance Minister Addresses National Meeting

OW1612030188 Beijing XINHUA Domestic Service  
in Chinese 1252 GMT 8 Dec 88

[By reporter Ding Jianming; local broadcast news service]

[Text] Beijing, 8 Dec (XINHUA)—A national conference on financial work opened in Beijing today. Vice Minister of Finance Chi Haibin stressed at the conference: Total social demand is too large, and it should be reduced. This must be done in both finance and credit, and a tight financial policy must be pursued.

At the conference today, Chi Haibin briefed those present on the implementation of this year's state budget. Chi Haibin said: The situation in revenue and expenditure is normal this year. The internal revenue from January to October totaled 179.46 billion yuan, accounting for 74 percent of the annual budget and increasing 7.1 percent over the same period of last year. Industrial and commercial taxes were collected more effectively this year, these taxes collected from January to October totaled 128.16 billion yuan, an 11.5 percent increase over the same period of last year. By the end of October expenditures totaled 181.75 billion yuan, accounting for 69.9 percent of the annual budget and increasing 10.7 percent over the same period of last year. Judging from the implementation of the budget in the first 10 months of this year, arduous efforts still have to be made to keep the balance between revenue and expenditure under the planned amount of 8 billion yuan in order to fulfill the budgetary tasks for this year. To achieve this, Chi Haibin called on all localities and departments to mobilize people to collect revenue in every possible way in the rest of the year, to keep spending under strict control, and to prevent a year-end buying spree in order to ensure the successful implementation of the state budget for this year.

On plans for revenue and expenditure for next year, Chi Haibin said: In making revenue and expenditure plans for next year, we should resolutely implement the principles of improving the economic environment, rectifying the economic order, and deepening reforms in an all-round way, pursue a tight policy, and be determined to reduce spending and to live in austerity for 2 to 3 years.

On arrangements for revenue and expenditure in 1989, Chi Haibin said that the following principles should be followed: 1) Efforts should be made to readjust the distribution policy and to appropriately concentrate

funds to satisfy the needs of reform and to ensure the building of key construction projects. 2) It is necessary to cut down expenditures, to retain some projects while reducing others, and to handle cases on merit. 3) It is essential to improve economic results and find more financial resources by strengthening management and tapping potential. 4) We must persist in doing things according to our capability and keep the financial deficit at the minimum.

Chi Haibin said: The increased revenues next year will be mainly used for the price and wage reforms, the building of necessary key construction projects, and spending in agriculture, education, and science. All other expenditures will have to remain at this year's levels, and spending for some projects is still to be reduced.

In conclusion, Chi Haibin stressed: In the coming year, resolute efforts must be made to reduce institutional purchasing power, to strictly control personnel going abroad, and to cut down expenses. At the same time, it is necessary to enforce financial and economic discipline. Personnel should be strictly forbidden to give dinners, send gifts, or do sightseeing at government expense and to arbitrarily issue bonuses, subsidies, or materials.

### Call for Central Bank Independent of Government

40060193 Beijing JINRONG SHIBAO in Chinese  
9 Dec 88 p 3

[Article by Zhang Zhongshan 1728 1813 1472 and Ni Kehu 0242 0344 3275: "An Exploration of the Subordination of the Country's National Bank"]

[Text] The subordination of the central bank refers primarily to its relationship to the government, which is to say whether it is under direct government leadership. During the more than 30 years since liberation, China has never had a true central bank, but with institution of the policies of reform and opening to the outside world, there is an objective need for the establishment of a "separate" central bank for the regulation and control of the macroeconomy. With the announcement on 17 September 1983 of the "State Council Decision to Designate the People's Bank of China Responsible for Performing the Functions of a Central Bank," (hereinafter abbreviated to "The Decision"), new China had its own central bank. "The Decision" stated explicitly that China's central bank would be subordinate to the central government from the day of its founding. However, as a result of the steady loss of control over the amount of credit and the continued currency inflation of recent years, people have come to question the advisability of central bank subordination to the government, and have called for it to be separated from the government and put under leadership of the NPC with responsibility to the NPC. The subordination of the central bank has become an issue in China that requires study and solution.



### Advantages and Disadvantages of Central Bank Subordination to the Government

*Little independence and much administrative interference under government subordination; large amount of freedom in the exercise of currency policies that is helpful in carrying out macroeconomic regulation and control when independent of the government.*

When the central bank subordination issue is looked at in terms of the changes that have taken place in the course of historical evolution, there is no doubt that its subordination to the government provides advantages that show up conspicuously in the following ways: Government's intentions can be directly and rapidly relayed to the central bank and translated into action by the central bank. As administrative leader, the government has the authority to supervise the economic actions of the central bank, to readjust fiscal policies, to abolish agencies concerned and to hire and fire personnel concerned for ultimate implementation of the government's intentions. A high degree of unanimity can be maintained in central bank and government actions, and the government's intentions can be accurately carried out. However, many disadvantages also stem from central bank subordination to government, principal of which is excessive government interference, one frequent consequence of which is that bank accommodation of the government with central bank loans and overdrafts precipitates inflation. Relationships between central banks and governments in the world today are of three basic kinds as follows: subordination to the Ministry of Finance with little independence, subordination to the Ministry of Finance with substantial independence in the formulation or execution of fiscal policy, and an independent agency with substantial independence. Comparison of relevant data shows the trend to be toward subordination to government with little independence and much administrative interference. By contrast, independence from government, with a high degree of freedom in the formulation and execution of fiscal policies helps in carrying out macroeconomic regulation and control.

A central bank subordinate to government. Countries having this relationship include Italy, the United Kingdom, France, Japan, and Hungary. In Italy, central bank independence from the government is very weak. Should the Ministry of Finance maintain that a decision by the central bank board of directors is inconsistent or not in keeping with national laws and decrees, or the status of the central bank, it has the authority to order its temporary suspension. The central bank takes orders largely from the Ministry of Finance and the inter-ministerial Credit and Savings Committee. The bank must provide short term funds to the Ministry of Finance and purchase government debentures. Italy's inflation rate has continued high, running at 21.3, 19.5, 16.5, and 14.6 percent from 1980 through 1983 respectively. The Bank of Japan was made subordinate to the Ministry of

Finance long ago. When Japan began its foreign expansion during the 1930's and 1940's, the central bank became a major tool for the gathering of funds to support its aggression. The "Japanese Banking Code" provides that government in the form of the Okurasho, or Ministry of Finance, has complete control over the Bank of Japan, including personnel and professional activities, and the Bank of Japan is required to "regard the goals of the state as its mission." Banks were forced to purchase large quantities of government bonds, which created severe inflation. Later on, the disadvantages of direct government control over the central bank were recognized, and in June 1949, the "Bank Policy Committee" was established as the policy making body for the Bank of Japan in order to restrain government manipulation of the central bank, and to insure the central bank's relative independence. In recent years, Japan's inflation rate has been very low. From 1965 through 1980, it was 7.7 percent; and from 1984 through 1987, it was 2.3, 2.0, 0.6, and 0 percent respectively. Even so, the clamor for relative independence of the Bank of Japan has risen once again in the hope of making it independent of the Ministry of Finance.

A central bank relatively independent of government. In one type of relative independence from government, the central bank is neither under government leadership nor under control of parliament. Such is the case in Germany. In another type, it is under jurisdiction of the national parliament as in the United States, Sweden, and Yugoslavia. From 1965 through 1980, inflation in West Germany stood at 5.1 percent, 6.1 percent in the United States, and 8.0 percent in Sweden. From 1980 through 1985, it was 3.2 percent for West Germany, 5.3 percent for the United States, and 8.6 percent for Sweden. West Germany went through the same process as Japan in understanding the need for the central bank to be independent. During two world wars, the German government twice wrested independence from the central bank, and recklessly printed paper currency, which produced terrible inflation that caused untold suffering. In 1957, West Germany's central bank finally became independent of the government to enjoy a very great amount of independence, thereby insuring steady development of the West German economy. Several major financial crises also mired the American economy in crisis. In 1913, the United States founded the Federal Reserve Board in an effort to make the federal reserve agency independent of government control and enjoy full freedom. The result was to promote economic development. Though Yugoslavia's central bank is responsible to the legislature, Yugoslavia's inflation rate is very high. This is because Yugoslavia has pursued a high consumption policy, the shortfall between overall demand and overall supply being made up through the issuance of currency and foreign loans, and because of ineffective macroeconomic control over a decentralized economic system. Thus, Yugoslavia's inflation cannot be laid at the doorstep of the system whereby the central bank is responsible to the legislature.

China's central bank is subordinate to the government. The treasury's remedying of deficits through the use of central bank loans and overdrafts has led to continued inflation of the currency. Rise in the retail price index from 1985 through 1987 was 8.8, 6, and 7.3 percent respectively, and it is forecast to reach more than 17 percent in 1988. As a result of the speed of development, the sudden increase in investment, and expansion of the scale of capital construction, which have made it difficult for enterprises to find circulating funds, the amount of bank credit has also risen tremendously. Forecasts call for a 10-fold increase over 1978 in the amount of money in circulation in 1988. Before the People's Bank of China was designated to function as a central bank, people looked upon it as a second treasury, and now it seems that it has yet to free itself from the predicament of being a second treasury. We found as a result of an analysis that correlated the increase in the amount of currency in circulation to the treasury deficit for the years 1984 through 1987 that the correlation coefficient was an even 0.86; thus, there is reason for saying that a major reason for the increase in currency was treasury overdrafts and borrowing of funds. In terms of the correlation between the issuance of currency and price increases, 1979 saw a nearly threefold increase over 1978 in the amount of currency issued, while 1979 prices rose 1.3 percentage points over 1978. In 1980, the price rise was 4 percentage points over 1979. Increase in the issuance of currency from 1980 through 1982 was fairly low, and prices were fairly stable. In 1983, however, more than twice again as much currency was issued as in 1982, and in 1984 prices rose 1.3 percentage points over 1983. In 1984, increase in the issuance of currency was 2.9 times again as great as in 1983, and in 1985, prices rose 6 percentage points over 1984. Thereafter, prices steadily climbed in a pattern that showed that prices were bound to rise in the year following rapid increase in the amount of currency in circulation. Theoretically speaking, the basic amount of currency issued by the central bank that is in the monetary system produces a powerful derivative effect, treasury overdrafts and loans acting as an important source of basic currency. If the derivative effect of basic currency is figured at fivefold, then the amount by which the money supply has been increased by the 57.4 billion yuan in overdrafts and loans that the treasury has obtained during the past several years can be imagined. Therefore, the effect of loans and overdrafts shows up not just once, but with several times greater effect at a later stage.

#### **Independence of Domestic and Foreign Central Banks Compared**

*Ever since its founding, China's central bank has been conspicuously lacking in relative independence, and has been weak and ineffectual.*

(1) In legislative terms, many western countries explicitly provide by law that the central bank is to enjoy relative independence in the formulation or execution of fiscal policies. When circumstances permit, government

interference is ruled out insofar as possible. In China, however, "The Decisions" provide that "the People's Bank of China is the state agency for State Council leadership and management of financial matters, and the People's Bank of China concentrates forces on the study and execution of macroeconomic financial policy for the whole country, tightens control over credit funds, and maintains currency stability." However, "The Decisions" do not address the relative independence of the central bank. "People's Republic of China Temporary Bank Control Regulations," (hereinafter termed "The Regulations"), which were announced by the State Council on 7 January 1986, provide that "central bank financial activities must have as their goal the development of the economy, stabilization of the currency, and an increase in returns to society." Clearly, the independence of the central bank remains unclarified here.

(2) In terms of the ownership of capital, the central bank's trend of development has been toward state ownership. The ownership of capital reflects the subordinate relationship of the central bank with regard to assets. Inasmuch as the position of the central bank in control of the national economy has steadily increased, whoever controls central bank ownership rights can play a special role in socio-economic activity. Therefore, following World War II, some western nations used various means to place ownership of central bank share certificate rights completely or partly under state ownership. However, state ownership is not the same thing as responsibility to the government, nor does state jurisdiction mean the same thing as state ownership or responsibility to the government. In this sense, ever since founding of the central bank, ownership of its capital has belonged to the state in China.

(3) In terms of the appointment of the central bank's director and director general, governments usually hold appointment rights; however, the term of office of the director and the director general of the central bank in various countries does not necessarily correspond with the term of office of the president of the government. This is for the purpose of insuring that central bank currency policies do not change as the president and the political party change, so as to maintain relatively stable continuity. Though the government appoints a representative to the board of directors of some central banks, the representative either does not concern himself with central bank fiscal policies, or he has no voting rights. Only in a few central bank board of director meetings does the government representative have the right to vote. On some central bank board of directors, simply no provision is made for a government representative. In China, however, the central bank is an integral part of the State Council, and the chairman of the bank's headquarters (the de facto director) is appointed by the State Council, and his term in office runs concurrently with the premier's term in office. Though he can use his administrative authority to get things done, objectively speaking, he is in no position to maintain continuity in fiscal policy.

(4) In terms of the financial relationship between the central bank and the Ministry of Finance, the government in very many countries rigorously restricts central bank loans and overdrafts. For the most part, the central bank supports the government with loans of short duration, and there are virtually no overdrafts. Some governments set an absolute figure for the amount of loans; others set relative figures. In China, the treasury sets neither an absolute figure nor a relative figure to restrict central bank loans and overdrafts. As regards time limits, there is virtually no time limit on overdrafts, and for loans the time limit is also set in terms of years. In terms of interest, no interest is charged for some overdrafts, and the interest is also very low for some loans. Banks carried 93.4 percent of the national deficit for the period 1979 through 1987, mostly in the form of overdrafts.

(5) The central bank is a special agency with regard to the distribution of profits. It is a macroeconomic regulatory organ, and though it makes a profit, it is not an enterprise. Even though the central bank does not have profit as a goal, in the process of tightening and loosening the money supply, it generates a profit in the end because of its position as a creditor to commercial banks from whom it must collect interest. There are three ways in which central banks pay their profits to the state as follows: (1) They do not pay it, as is the case in Yugoslavia; (2) distribution is decided by the parliament, as is the case in Sweden; and (3) excess profit after deduction of reserve funds, interest on shares, and public accumulation funds is paid. These three methods primarily serve to insure that central banks will be able to expand their credit funds, retain sufficient reserve funds, and avoid central bank arguments with the Ministry of Finance over requests for funds. China's central bank differs from the aforementioned ones, however, in that its independence in the distribution of profits is very weak. Nor can it solve problems in replenishing and expanding credit funds. First of all, under a system of centralized control over receipts and disbursements, there is protracted wrangling with the Ministry of Finance about what profits are to be retained after deduction of expenses. In other words, basically, the treasury allocates no funds to the bank. Second, some of the only credit funds that the central bank has are also "shared." Because of the separate agencies, most of the existing credit funds are distributed to specialized banks. Finally, the amount of credit funds can only decrease; it cannot increase. Credit funds differ from treasury funds in that they have to be repaid, but for various subjective reasons, some loans finally turn into bad debts causing a corresponding reduction in the availability of loan funds.

It is easy to see from the above comparisons that, since its founding, China's central bank has lacked relative independence, and is weak and ineffectual.

#### **China's Central Bank Should Change Its Subordination**

*More disadvantages than advantages result from the central bank's subordination to the government. The time*

*is ripe for the central bank to become relatively independent of the government, and to become subordinate to the NPC.*

The time is ripe for China's central bank to become relatively independent of the government. Although, in an overall sense, the genesis and development of the central bank is mostly for the purpose of raising funds and providing loans to the government, with economic and financial development, it has outgrown this role in an organizational and professional sense. First of all, government's narrow role as both a source of funds and as a customer to be served has been exceeded; other financial institutions now serve this function. In China today, only about one-third of all the central bank's funds come from public funds deposits. In July 1988, government loans accounted for 2.79 percent of total funds used in China. In 1984, only 0.9 percent of central government expenditures of industrialized nations were financed by the central bank. Second, some people say that as the "government's bank," the central bank is duty bound to carry the government's financial burdens. Actually, the "government's bank" is a broad concept that means not just providing the government with funds, but also providing economic and financial information to the Ministry of Finance or other departments, acting on behalf of the treasury, and formulating and carrying out the country's financial policies. Moreover, even when understood purely in terms of its role as a government creditor, it also has the important functions of being a "bank of issuance," and a "bank's bank." Furthermore, one cannot regard the central bank's swallowing of government debentures as the only way in which it supports the government. The handling of debentures is simply the effect of what is essentially a tightening and loosening of money. In addition, the government and the central bank occupy different positions and have different goals. China's government is facing the historically important task of developing the nation's economy. The conflicts and clashes between the backward reality and the fairly high expectations often causes the government to think in overall terms of a "great leap forward," and to begin to start capital construction on a grand scale. When held back by a shortage of funds, all it can do is issue currency only to have to eat once again the bitter fruits of "readjustment." Were the central bank to be made independent of the government, it could use funds to restrain the government's impulsive or short term actions without regard for reality. In a country such as ours in which there has been no end to impulsiveness, the restraint exercised by the central bank is not too great, but too little.

The advantages to be gained from placing the central bank under the NPC are beyond doubt. Possibly some may say that the NPC is a "rubber stamp," so placing the central bank under jurisdiction of the NPC would be no real advance. Admittedly the NPC has truly seemed to be weak and ineffectual in many regards in the past; however, this characterization fails to take account of the shortcomings revealed in the climate of rule by law.

Since the third plenum of the 11th Party Central Committee, we have been building and perfecting democracy and the legal system. The NPC is the national institution having supreme authority. It has legislative qualifications. Unlike the government, it does not have to perform specific tasks, but can stand in a "detached" position to consider matters in an overall way and balance relationships among all quarters. Once under NPC jurisdiction, credit and currency issuance plans would be proposed by the central bank and sent to the NPC for consideration and approval, after which they would have the effect of law and could not be arbitrarily changed by any unit. The central bank would have to act on the basis of its own actual capabilities to provide selective support for demands made by the government. By contrast with the system whereby the central bank carries out government orders under jurisdiction of the State Council, the central bank's freedom would be very much greater in the process of formulating and executing fiscal policies. Government could reach an understanding with the central bank through an exchange of information and an exchange of views, carrying out its will in a form acceptable to the central bank. Government could also make proposals to the NPC, which could be selectively carried out following coordination with the NPC. In this way, the government could naturally act within its capabilities, doing whatever the amount of money available permitted. Only in this way can the central bank genuinely become a unit "detached" from day-to-day trivialities, and "separate" from government that helps in the macroregulation of the national economy. Of course, advocacy of relative independence is not to say that the central bank would be entirely unconcerned about the government. Actually there is a close relationship between the two. Specifically, the need to handle well the relationship with the state treasury is also a glorious responsibility of the central bank.

In summary, central bank subordination to the government holds more disadvantages than advantages. We recommend that China's central bank be relatively independent of the government and be directly responsible to the NPC. Its subordination should be changed, its position upgraded, its authority and responsibilities broadened, its financial policy goals spelled out, and its macroeconomic control techniques improved, stabilization of the currency being its bounden duty, and regulation of the economy its special task in making a contribution to development of the national economy.

**Bank Official on 'Disorder' in Securities Market**  
*OW1812085288 Beijing Domestic Service  
in Mandarin 1030 GMT 12 Dec 88*

[From the "National Hookup Program"]

[Text] According to JINRONG SHIBAO [FINANCIAL TIMES], Jin Jiandong, director of the Banking Administration Department of the People's Bank of China, recently made a speech stressing the need to strengthen control over the financial market and to maintain financial order.

Jin Jiandong pointed out: during the last few months, some signs of disorder have cropped up in the financial market, especially the securities market. Without approval from the People's Bank of China, some departments, units, and enterprises have issued shares and bonds, set up financial organizations such as securities companies, and dealt in securities transaction business. Some units have even resorted to administrative intervention and compelled employees to buy shares and bonds. In this connection, all branches of the People's Bank of China must resolutely check into this practice, and correct it within a definite period.

Jin Jiandong also revealed that the State Restructuring of the Economic System Commission and the People's Bank of China have begun the study to draw up laws and regulations for administering the issuance and transfer of shares to bring the management of securities market within the rule of law.

**Paper Says Nation Needs Securities Exchanges**  
*OW1712132588 Beijing XINHUA in English  
0809 GMT 17 Dec 88*

[Text] Beijing, December 17 (XINHUA)—China should set up securities exchanges as part of its financial system reform, today's GUANGMING DAILY said.

In a round-up report on symposiums held earlier this year in Shenyang, Shanghai and Beijing on securities markets, the paper said the state should prepare to set up an administration of securities exchanges, work out relevant laws and regulations and train the necessary personnel.

"All this is necessary for the implementation of the shareholding system and the development of markets for funds," the paper said.

The paper listed three reasons for the establishment of securities exchanges:

- Securities exchanges will help joint-stock firms normalize their activities. Since joint-stock firms that want to sell their shares on securities (stock) exchanges are required to go through assessment of their assets, management and finances, their business activities will be put under social supervision.
- Securities exchanges will help develop markets for funds. In the last few years, some 700 non-banking financial institutions have been established in China, and the volume of securities (state treasury bonds, shares and other kinds of bonds) has totaled about 100 billion yuan. With the establishment of securities exchanges, transactions of these securities will be facilitated and the flow of funds will be accelerated.
- Securities exchanges will help divert consumption funds into production. In China, rural and urban residents now have over 100 billion yuan in hand,

which puts great pressure on consumer goods markets. With securities exchanges set up, people will have more channels for disposal of their money.

Securities exchanges may lead to speculation, the paper said, but this defect may be controlled by regulations and supervision.

"If we earnestly learn from the experience of other countries in running securities exchanges, we will be able to get securities markets functioning in a short period of time, and in turn they will play a vigorous role in China's economy," the paper said.

**Bank Halts Loans for Nonproductive Projects**  
*OW1512174788 Beijing XINHUA in English*  
1257 GMT 14 Dec 88

[Text] Beijing, December 14 (XINHUA)—The Industrial and Commercial Bank of China is to stop further loans to 119 "non-productive" projects next year as part of the overall program to cut back investment.

This will save about 350 million yuan, the Beijing-based FINANCIAL NEWS reported today.

Construction of 78 projects included in the state plan, which were to have cost an estimated 320 million yuan, will be stopped or postponed.

The bank's branches have rejected requests for loans for another 41 new projects because they did not fall within the State Council regulations, a bank official was quoted as saying.

## INDUSTRY

**Strengthening of Light Industry Advised**  
*HK0612140388 Beijing CEI Database*  
in English 6 Dec 88

Beijing (CEI)—China's light industry will be further developed to maintain an increase rate of 10 to 15 percent in the next few years to ease rising demand for consumer goods.

According to Vice-Minister of Light Industry Xiao Yongding, readjustment should be made in the production, commodity and technological structures as well as distribution of the productive forces.

Although the first 9 months of this year recorded a 15.6 percent increase in the light industrial production over the same period last year, this still cannot satisfy the growing demand in the domestic market, Mr Xiao said.

In 1987, light industry made up only 47.6 percent of the total industrial output value. This situation of course could not help stabilize the consumer goods market, Mr Xiao said.

He said that light industry should be developed at faster rate than heavy industry to cope with the current phenomenon of overall demand surpassing overall supply.

On the other hand, consumer goods production in the past 10 years has been unable to catch up with people's rising purchasing power, he said.

He added that the currency in circulation in the first 9 months of this year reached 184.7 billion yuan, the total value of consumer commodities in stock was 253.3 billion yuan and the total surplus purchasing power of the society was 500 billion yuan, showing a large gap between demand and supply.

He said a crisis situation might emerge next year if efforts are not made in the following five aspects to realize a rapid development of light industry:

- To increase the production of daily necessities and consumer goods in short supply;
- To boost the production of raw materials for light industry;
- To produce more consumer goods that could accelerate withdraw currency in circulation [as received];
- To develop export products that could earn hard currency;
- To promote the production of consumer goods with high added values.

Meanwhile, measures must be taken to curb projects that consume too much energy, raw materials, grains and foreign currency and reduce products not in great demand and causing pollution, he said.

He stressed the need to limit the export of raw materials and consumer goods which are in short supply domestically.

The country will increase import of important light industrial materials in short supply, such as pulp, materials for making plastics and detergents, he said.

He suggested that the government departments concerned should allocate certain special funds to help develop consumer goods and establish centralized authority for approving the production of certain light industrial goods.

**Light Industry Diversifies Products**  
*OW1612151488 Beijing XINHUA in English*  
0649 GMT 15 Dec 88

[Text] Beijing, December 15 (XINHUA)—The wide use of new technology, new equipment, and new materials in China's light industry over the past few years has led to a rapid increase in varieties and an average of 2.5 new products come out each day, according to Chen Shineng, vice minister of light industry.

The past 8 years have witnessed some 8,000 new products put onto the market, Chen said, "and the application of advanced science and technology has promoted the improvement of the quality of light industrial products."

This has also played an important role in the growth of exports from this sector in recent years. Statistics show that the export income has increased at an annual rate of over 20 percent, and it is expected to reach 7.8 billion U.S. dollars-worth by the end of this year.

For instance, he said, the use of the double-fermentation technique in mushroom culture has led to as much as a

40 percent increase in mushroom output. Now China earns 100 million U.S. Dollars each year from exports of canned mushrooms.

**October Main Industrial Products Output Figures**  
*HK0612140988 Beijing CEI Database in English*  
6 Dec 88

[Text] Beijing (CEI)—Following is a chart, showing the output volumes of main industrial products in October, 1988, released by the CSICSC [China Statistics Information Consultancy Service Center].

Item	Unit	Jan-Oct 88	Oct 88	Percentage over Jan-Oct 87
Bicycle	10,000	3367.70	359.30	99.58
Sewing Machine	10,000 sets	794.00	84.20	98.98
Watch	10,000	4999.20	568.70	98.34
TV Set	10,000 sets	1984.00	242.50	127.83
Color TV	10,000 sets	810.70	103.10	155.09
Radio	10,000 sets	1239.30	112.10	88.80
Tape Recorder	10,000 sets	1877.90	235.10	121.05
Washing Machine	10,000 sets	858.50	95.10	100.49
Camera	10,000 sets	216.70	27.00	115.18
Fan	10,000 sets	3765.30	315.10	122.64
Refrigerator	10,000 sets	587.50	77.40	188.69
Chemical Fibre	10,000 tons	105.50	12.00	109.92
Yarn	10,000 tons	384.60	38.80	106.88
Cloth	100 million meters	147.90	15.10	106.67
Chemical Fibre Cloth	100 million meters	54.00	5.50	107.58
Silk	10,000 tons	4.00	0.40	93.84
Silk Fabric	100 million meters	12.60	1.30	101.12
Woollen Fabric	10,000 meters	22211.00	2230.00	103.47
Knitting Wool	10,000 tons	16.80	1.80	115.08
Sugar	10,000 tons	326.90	12.20	83.48
Salt	10,000 tons	1959.80	279.90	123.41
Cigarette	10,000 cases	2499.70	293.20	106.75
Machine-made Paper and kraft	10,000 tons	917.70	94.70	109.47
Newsprint	10,000 tons	20.30	1.50	68.26
Anastatic Printing Paper	10,000 tons	60.30	6.10	101.28
Synthetic Detergent	10,000 tons	108.80	10.80	107.58
Bulb	100 million	15.10	1.50	106.21
Gasoline	10,000 tons	1557.20	178.70	107.15
Kerosene	10,000 tons	325.70	36.30	90.45
Iron Ore	10,000 tons	12862.20	1340.40	103.40
Pig Iron	10,000 tons	4708.00	484.70	104.75
Steel	10,000 tons	4962.40	512.70	107.08
Rolled Steel	10,000 tons	3929.60	410.50	107.84
Wire Rod	10,000 tons	653.80	72.60	115.73
Steel Plate	10,000 tons	492.30	52.30	103.69
Coke	10,000 tons	3927.80	401.00	105.85
Sulphuric Acid	10,000 tons	922.20	94.20	115.56
Sodium Carbonate	10,000 tons	212.50	24.00	107.99
Caustic Soda	10,000 tons	243.90	25.20	107.35
Ethylene	10,000 tons	99.60	12.00	144.80
Purified Benzene	10,000 tons	46.50	4.50	122.56
Synthetic Ammonia	10,000 tons	1656.50	172.50	102.38
Fertilizer	10,000 tons	1499.6	155.50	105.33
Nitrogenous Fertilizer	10,000 tons	1152.70	120.90	102.20
Phosphoric Fertilizer	10,000 tons	341.90	34.10	118.47
Chemical Pesticide	10,000 tons	17.80	2.00	76.36

Item	Unit	Jan-Oct 88	Oct 88	Percentage over Jan-Oct 87
Pharmaceuticals	10,000 tons	15.90	1.70	124.94
Tyre	10,000	2479.90	262.60	119.59
Synthetic Rubber	10,000 tons	20.80	2.00	116.79
Plastic	10,000 tons	129.80	14.30	109.48
Timber	million cubic meters	3674.00	288.00	93.15
Artificial Board	10,000 cubic meters	219.70	21.00	115.91
Cement	10,000 tons	16854.20	1886.70	112.69
Plate Glass	10,000 tons	5787.30	666.20	127.97
Power Equipment	10,000 kw	828.20	63.70	114.39
Machine Tool	10,000 sets	14.90	1.70	122.13
Precision Machine Tool	sets	1039.00	86.00	110.77
Large Machine Tool	sets	3965.00	430.00	117.00
Automobile	10,000	53.40	5.80	137.66
Truck	10,000	35.10	3.90	132.08
Tractor	10,000	4.70	0.30	132.48
Small Tractor	10,000	116.40	10.40	123.03
Locomotive	set	713.00	61.00	93.45
Passenger Car	set	1577.00	159.00	105.98
Freight Car	1,000 sets	19676.00	2015.00	105.60
Internal Combustion Engine	10,000 h.p.	4763.30	537.20	129.32
Civil Steel Ship	10,000 tons	76.90	6.40	60.59
Computer	sets	187.00	17.00	148.41
Calculator	10,000 sets	321.70	46.60	128.51

**Gross Industrial Growth Rate Drops in November**  
*HK0812065188 Beijing ZHONGGUO XINWEN SHE*  
*in Chinese 1081 GMT 7 Dec 88*

[Text] Beijing, 7 Dec (ZHONGGUO XINWEN SHE)—China's superfast industrial growth rate began to drop in November this year with the application of macrocontrol measures.

Based on the updated figures supplied by the State Statistics Bureau, November's national gross industrial output value was 108.7 billion yuan, up by 17.9 percent over the same period of last year, and the growth rate markedly dropped compared to recent months. Per diem output value dropped by 2.7 percent compared to October. Light industry's growth rate dropped by a wider range than did heavy industry.

Regarding products, the bulk of consumer goods in the categories of light industry, textile industry, and electronics industry maintained their growth. Among them, wrist watches, color television sets, recorders, laundry machines, electric fans, raw salt, synthetic detergents, and plastic goods increased rapidly; however, shortages in raw materials caused a drop in the production of cotton, silk, polyester fabrics, woolen fabrics, gunny-sacks, newsprint, relief printing paper, and aluminium utensils as well.

The conditions of energy resources and production of raw materials continued to worsen. In November, the gross output of energy resources increased by only 5 percent over the same period of last year. Among 40

categories of major raw materials, 17 slowed down in growth rate, and another 14 cut back their output, of which chemical fertilizers dropped by 3 percent.

The Statistics Bureau's data also disclosed that the accumulated national gross industrial and agricultural output value between January and February of this year was 1,099.4 billion yuan, up 17.7 percent over the same period of last year, and the annual plan was fulfilled 1 month ahead of schedule. Light industrial output value in the first 11 months of the year was 552.8 billion yuan, up by 19.1 percent, and heavy industrial output value was 546.6 billion yuan, up by 16.4 percent.

**Baoshan Steel Complex Enters New Construction Phase**

*OW1512171988 Beijing XINHUA in English*  
*0837 GMT 13 Dec 88*

[Text] Shanghai, December 13 (XINHUA)—Shanghai's Baoshan Iron and Steel Complex, one of China's major iron and steel companies, entered a new stage when its cold steel rolling mill went into full-load trial operation today.

A company official said the plant has turned out more than 10,000 tons of cold-rolled steel sheets over the past two months of partial trial operation.

The plant is one of the five most advanced in the world and is expected to turn out 2.1 million tons of thin steel sheets a year when the new phase of its construction is completed.

According to the official, the second phase of construction, including six major new facilities, is proceeding according to schedule.

Single machines of the complex's 2050 model continuous hot rolling mill have now been put into trial operation. The mill, which is expected to go into permanent full-load operation next June, will produce four million tons of steel products, including finished steel sheets.

When the second phase of construction is completed, the complex will be able to increase its iron output to 6.5 million tons, its steel-making capacity to 6.7 million tons and turn out 3.722 million tons of various types of steel plates badly needed by domestic enterprises.

### **Jiangsu Develops Export-Oriented Electronics Industry**

*HK1912100588 Beijing RENMIN RIBAO in Chinese  
12 Dec 88 p 2*

[XINHUA report: "Jiangsu's Electronics Industry Develops in the Direction of Becoming an Export-oriented Economy"]

[Text] Nanjing, 11 Dec (XINHUA)—The electronics industry in Jiangsu Province has achieved gratifying results in developing its export-oriented production and increasing exports. In 1987, the foreign exchange earnings made by the whole trade were equivalent to the total sum in the 5 years of the Sixth 5-Year Plan. It is expected that exports this year will increase by about 30 percent over last year.

The export products have developed from parts to whole-set equipment. In the past, the Jiangsu electronics industry mainly exported condensers, potential meters, speakers, and other parts. Now, the proportion of whole sets of equipment among export goods has been much expanded. This year, more than 400,000 television sets were exported.

The export products have also been upgraded. The Nanjing Wireless Plant exported 100 sets of satellite ground station equipment to the United States this year. Computer plants have also exported Chinese-character high-technology and high-quality computer terminal equipment to the international market.

The forms of export have been diversified. In Jiangsu, 16 enterprises have achieved the right to do export business on their own, and another 5 enterprises can also make decisions on foreign trade. Some of these enterprises have organized export production groups, such as the Zhongshan group in Nanjing and the Meihua group in Wuxi. They have achieved new advantages through such conglomerates in their advance into the international market.

### **Jilin Witnesses Good Economic Efficiency** *SK0912060788 Changchun Jilin Provincial Service in Mandarin 1030 GMT 8 Dec 88*

[Text] According to the figures released by the provincial Statistical Bureau recently, from January to November, urban industrial enterprises and the industrial enterprises at or above the township level throughout the province fulfilled 27.994 billion yuan in the total industrial output value and witnessed relatively good economic efficiency. Meanwhile, the budgetary industrial enterprises in the province realized 15.58 billion yuan in income from selling their products, and realized 3.24 billion yuan in profit and tax, a 39.2-percent increase over the corresponding period last year. In addition, the output value created by the newly developed products and the readily marketable products specially produced in line with market demands accounted for half of the total newly added output value of the province.

The relatively rapid development of the processing industry and the backwardness in the development of energy and raw materials industries have aggravated the structural contradictions among various sectors of industry. At the same time, the backwardness in the development of energy and raw materials industries has restricted the province's industrial development in an increasingly serious manner. At present, while regulating the speed of industrial development, we should pay attention to the production, conservation, and utilization of energy resources and raw materials; and should organize regulatory funds to make good preparations for the production in the next year.

### **Shanghai's Industry Continues To Increase** *OW0612122188 Beijing XINHUA in English 0216 GMT 4 Dec 88*

[Text] Shanghai, December 4 (XINHUA)—The total industrial output value of Shanghai, China's leading industrial center, reached 9.602 billion yuan in November, up 16 percent over the same period of last year.

The city's total industrial output value in the first 11 months was 97.994 billion yuan, up 9.7 percent over the same period of last year and lower than the average increase speed in the country.

A city official in charge of industry said Shanghai's industrial situation is characterized by a deepening enterprise reform; the development of enterprises of different ownership; technical upgrading and expanding cooperation inside and outside the city.

## **CONSTRUCTION**

### **Minister on Reforming Construction Team** *OW1612225688 Beijing Domestic Service in Mandarin 2230 GMT 12 Dec 88*

[Text] Minister of Construction Lin Hanxiong said yesterday in Beijing: Starting next year, China's construction team has to step up adapting in three areas:



adapting to the needs of society, villages and small towns, and international markets. It also has to resolutely and appropriately streamline its bulky organization.

According to the minister, due to vigorous efforts to reduce the scale of capital construction, a large number of construction enterprises will have no work to do in the next 2 years, forcing millions of construction workers into idleness. To properly solve the problem, the Ministry of Construction is planning to take various measures including reforming the construction system and restructuring the construction team, and will work with local governments.

Regarding reforms of the housing and land utilization system, Li Hanxiong said: Right now the most valuable commodity we have is houses. At the current stage, we are committed to gradually turning houses into commodities that individuals can afford to buy. Next year will see the completion of six documents concerning the policies and regulations on development and management of real estate. Real estate business will be allowed in qualified cities serving as test sites.

#### **National Conference Points Up Challenges to Industry**

*OW1712051788 Beijing XINHUA Domestic Service  
in Chinese 1444 GMT 12 Dec 88*

[Text] Beijing, 12 Dec (XINHUA)—China has achieved great successes in the construction industry during the 10 years of reforms and opening to the outside world. Completion of 951 large- or medium-sized, and of more than 70,000 public utilities projects, which are of vital importance to the national economy and the people's livelihood, has greatly changed China's urban outlook, this reporter has learned from today's national conference on construction.

According to statistics, during the past 10 years China built housing with a total floor space of 9.75 billion square meters in both urban and rural areas. The total product of society accomplished by the construction industry came to 1,000 billion yuan and the industry contributed 280 billion yuan to the national income. At the same time, proceeding from the needs of developing the socialist commodity economy, the industry also actively reformed or explored ways to reform housing and land use systems, proper pricing of public utilities products, and compensation for use of municipal facilities.

In spite of remarkable successes, we must not overlook the problems and difficulties facing us. It was learned that, what with over-heated economic departments in China in recent years and with the fact that reforms in various sectors are not well coordinated and even counteract one another, China's construction industry has not yet built up a management and operational mechanism

suited to the commodity economy. The level of commercialization of the industry is still very low. The construction industry, real estate business, and municipal utilities have not yet acquired the capacity to accumulate funds for their own transformation and development. The market for the construction industry is seriously flawed and even, in some areas, chaotic. For example, a nationwide sample survey of civil projects this year shows that only 48 percent meet qualifications. Water leakage is so common and the residents are so dissatisfied that the reputation of the housing industry is on the verge of bankruptcy.

A leading official of the Construction Ministry pointed out that resolute, active, and in-depth reforms are needed to put to an end, once and for all, the situation in which construction enterprises lack vitality and capacity for sustained development.

#### **Status of Major Construction Projects Reported**

*HK1012071088 Beijing XINHUA Hong Kong Service  
in Chinese 0608 GMT 8 Dec 88*

[Text] Beijing, 8 Dec (XINHUA)—According to information released by the State Statistical Bureau, up to the end of September the construction of one of the 203 key construction projects set up by the state this year has been completed and put into operation, and 67 projects have been partially completed and put into partial operation. A number of productive forces has thus been formed.

The project completed and put into operation is the Liaoning Jinzhou Electric Plant. When the plant is put into operation, the newly installed generator will have a capacity of 600,000 kilowatts.

The following projects are partially completed and have been put into operation: 6 oilfields, 17 coal areas, 34 generating sets, some 1,700 km of multiple track railway, and 6 berths.

Apart from these, the equipment of 42 other projects is being installed.

China has attached more and more attention to the construction of key state projects. In 1983, only 70 projects were established and constructed by the state. This year, the number increased to 203. These projects are mainly concentrated in the energy industry, transportation industry, posts and telecommunications, and raw materials industry. They will play a positive role in accelerating the pace of China's economic development, in particular in easing the tight situation in the energy industry and the raw materials industry.

According to calculations, when the construction of these key projects is completed and when they are put into operation, they will increase the following main productive forces: The capacity of exploiting 100 million

tons of coal, the capacity of exploiting some 55 million tons of oil, generating sets with a capacity of 35 million kilowatts, and ports will have a capacity of handling 110 million tons of cargo.

**Gu Xiulian on Curbing Capital Investment**  
*OW2112064488 Nanjing XINHUA RIBAO*  
*in Chinese 8 Dec 88 p 1*

[Text] It is necessary to continue to thoroughly check on capital construction projects being built at present, curtail the scale of investment, and readjust the investment structure. This is an urgent and arduous task; hence, we must make up our mind and greatly endeavor to grasp this work. We must effectively curb the scale of capital construction projects. This was the main subject when Governor Gu Xiulian recently held talks with reporters.

Her talk started from an evaluation of checking on capital construction during the previous period. She held that, judging from the general requirement, the investigation during the earlier period was merely a beginning and we must "make painstaking efforts" to curtail investment.

During the past 2 months, investigation of capital construction was carried out in the whole society and its scope was greater than all previous investigations. Because of efforts of various cities, counties, and departments concerned, we have generally understood the situation of capital construction being built in the province, stopped a number of capital construction projects and reduced investment costs with a total amount of some 1 billion yuan. Those are positive achievements. Regarding the projects that were stopped, most of them were office buildings, auditoriums, and guest houses. Investment production projects and technological renovation projects were relatively small. In addition, the construction of most of those previously approved projects had not started. Capital construction projects being built at present only account for a small portion of all those to be stopped. Of the 529 projects listed by this province according to the State Council's guidelines for stopping construction, 326 projects are still being requested by various localities for continuing construction. The total costs of those projects were quite large. The construction of a number of office buildings, auditoriums and guest houses was stopped. However, there are still many units which are requesting approval for continuing this construction work. As to checking on fixed investment projects of collective, village, town enterprises, the work has just begun. Facts have shown that the investigation of and checking on fixed investment projects in the whole society is still in the initial period. When we gradually intensify checking on capital construction projects, this province must stop the construction of some more office buildings, auditoriums, and guest houses and also stop some projects with long construction cycles. Building capital construction projects should also be postponed or slowed down when funds and conditions are not ready.

In view of the fact that resolute curtailment of the scale of investment may adversely influence future economic development of some localities, Governor Gu suggested that we should raise our ideological understanding and do meticulous work when we promote the arduous task of checking on capital construction projects.

Judging by the practice during the previous period, we can see that some localities and departments have not made up their mind in checking on capital construction projects and some units are taking a wait-and-see attitude. The reason is that those localities and units thought that the current efforts to curtail the scale of capital investment was only temporary, and massive construction work would be resumed later. They thought they would suffer losses if they took the initiative to curtail capital construction. Some localities and departments do not have a clear understanding of the problem of overheating the economy. Some of them thought that only other localities were overheating, and some localities and units thought there was "only slight overheating" in economic development. Some localities and departments thought that they started late and complained that they were forced to improve the economic environment and rectify economic order when they just started to promote economic development. Apparently, the key in doing a good job in currently checking up on capital construction work lies in further raising our understanding, eliminating doubt, and strengthening our confidence. In the course of further checking up on fixed investment, we must constantly unify our thinking, foster the concept of taking the entire situation into consideration. We must understand that if we do not curtail the scale of investment we cannot reduce the scale of credit, obtain adequate consumer funds, reduce the excessive economic growth rate, improve the supply of raw materials and consumer goods in the market, or completely solve the problem of high inflation over which the entire population has showed much concern. In addition, there are also some specific problems in checking up on fixed investment. Taking the source of funds as an example, according to an analysis, the current investment within the state budget only accounts for 6 percent of the total amount of fixed investment, the loans extended by domestic banks account for 38.9 percent of the total amount of fixed investment, of which a considerable portion are loans for renting equipment and facilities, and the funds invested by various enterprises, departments, city and county revenues account for 37.8 percent. Some funds for capital construction investment are accumulated by peasants. Accordingly, we must do very meticulous work in checking up on fixed investment in view of the complicated nature of investment. We must also do meticulous work and properly solve problems such as the use of funds and equipment and the placement of personnel after those capital construction projects are stopped.

Although it is an arduous task to check on projects under construction, Governor Gu is fully confident of the prospects for this task. She said: The provincial government should adopt effective measures to really stop or

reduce projects under construction in coordination with concerned departments to gain the initiative in improving the economic environment and rectifying economic order. First of all, the governments at the provincial, city, and county levels must conscientiously and effectively do this work, and provincial level departments in particular should play a leading role in this regard. Provincial level departments should not only study policies but check on projects under construction. They should list all office buildings, auditoriums, and guesthouses, as well as industrial projects, which have been checked in Nanjing and other cities, and resolutely stop the construction of the projects which should be stopped. Then, the provincial government will organize personnel to make a spot check on the work in this regard. Second, all localities must not do this work perfunctorily and must check local projects against a list of those projects upon which the State Council has required stopping construction. All local projects listed by the State Council must be pointed out, and opinions must be put forward on how to deal with them. If their construction must continue, the reasons for doing so must be given. Third, it is necessary to link projects under construction with arrangements for next year's plans, to carry out the task of checking on such projects according to the state plan, and to do a good job in making plans for next year. Banking departments should coordinate closely with the planning and economic commissions and other departments in making an inventory of loans granted, having a clear understanding of projects under construction, and stopping the construction of projects which should be stopped. The provincial government will also organize personnel to make a special investigation of office buildings, auditoriums, guesthouses, cotton spindles, and investments by financial institutions and then to suggest effective measures in these respects.

In conclusion, Governor Gu said: "I hope that local governments, propaganda departments, and mass media will promptly study new situations and problems arising in the work of checking on projects under construction, commend advanced elements, criticize erroneous trends, and continue to promote the reduction in the scale of investment."

**Boost for Yangtze Basin Economy**  
*OW1612193988 Beijing XINHUA in English*  
1114 GMT 16 Dec 88

[Text] Beijing, December 16 (XINHUA)—China will invest 104 billion yuan in capital construction in provinces and cities along the Yangtze River during the seventh five-year plan period (1986-1990). This sum will account for 21 percent of the nation's total investment in this period.

The State Council has decided to list the middle reaches of the river as one of the most important development areas before the end of this century, according to today's PEOPLE'S DAILY.

There are over 100 cities along the Yangtze River, China's longest, and they will be aided in developing the metallurgical, machinery, building materials, petrochemical, textile, and light industries, as well as tourism and aquatic products.

## COMMERCE

### Industry, Commerce Federation To Strengthen Outside Ties

*HK0612141788 Beijing CEI Database in English*  
6 Dec 88

[Text] Beijing (CEI)—The All-China Federation of Industry and Commerce (ACFIC) will strengthen its ties with Taiwan, Hong Kong, Macao, and foreign countries to promote the development of economic and technological and trade cooperations between ACFIC members and industrial and commercial social bodies and personages in business circles, said Rong Yiren, the newly-elected chairman of ACFIC.

ACFIC held its sixth national congress from Nov. 27 to Dec. 3 and worked out its stresses of program for the future.

ACFIC, set up in 1953, is a non-governmental organization of China's industrial and commercial circles. For the past two years, ACFIC has accepted more than 78,000 members, of which 39,000 are enterprise members including foreign-funded enterprises and private-owned enterprises.

ACFIC acts as a bridge between governments and enterprises, keeping the government informed of the desires, proposals and suggestions of its members on economic policies and regulations. It also provides services for its members regarding economic information, accounting and law consultancy.

**Price Index of Goods Involved in Free Trade**  
*HK0212120188 Beijing CEI Database in English*  
2 Dec 88

[Text] Beijing (CEI)—Following is the price index of goods in free market trade in September 1988, released by CSICSC:

(Note: Price of the same period of last year as 100.)

	National	Including Town	Countryside
General Index	142.3	137.3	144.7
a. Price Index of Consumer Goods	139.3	137.3	139.9
1. Grain	138.2	135.8	138.8
2. Edible vegetable oil	118.4	129.5	116.3
3. Vegetables	137.2	137.7	136.8
4. Dried vegetables	127.1	125.3	127.6
5. Meat, poultry, and eggs	145.0	139.7	147.4

	National	Including	
		Town	Countryside
6. Aquatic products	137.0	133.4	138.4
7. Fruits	134.9	138.7	133.1
8. Dried fruits	128.4	125.2	129.3
9. Daily necessities	121.3		121.3
10. Others	152.3	130.3	157.8
b. Price Index of Agricultural Means of Production	168.7		168.7
1. Forage	136.7		136.7
2. Farm tools	114.6		114.6
3. Poultry, pigs, sheep and goats	212.3		212.3
4. Large domestic animals	130.0		130.0
5. Bamboo and timber	141.5		141.5

**October Social Commodities Retail Sales Figures**  
*HK0612141388 Beijing CEI Database in English*  
6 Dec 88

[Text] Beijing (CEI)—Following is a chart showing the total value of retail sales of social commodities in October 1988, according to CSICSC. [China Statistics Information Consultancy Service Venter].

	Value (in rmb 100 million yuan)		Percentage as compared with Jan-Oct 87
	Jan-Oct 88	Oct 88	
Total Value of Retail Sales	5995.30	647.70	128.01
1. Variety			
a. Consumer goods	5229.00	575.00	128.09
of which: sold to resident	4685.40	518.30	128.95
b. Means of production for peasants	766.30	72.70	127.46
2. Sales channels			
a. State-owned	2367.20	253.20	130.49
b. Collectively owned	2120.70	219.40	125.06
of which: Supply and marketing cooperatives	1017.90	94.40	128.09
c. jointly owned	19.60	2.30	126.45
d. individual	1012.80	117.00	128.11
e. Sales by peasants to non-agricultural residents	475.00	55.80	129.25

**Article Urges Developing Capital Goods Market**  
*OW2312080588 Beijing GUANGMING RIBAO*  
in Chinese 10 Dec 88 p 3

[Article by Lu Xian 7120 072 and Gu Hengru 7357 5899 1172: "Attach Importance to the Development of a Capital Goods Market"]

[Text] The aim of reforming China's supply system is to introduce the competitive mechanism in the circulation

sector. On one hand, we have continuously reduced the scope of mandatory planning, expanded the scope of guidance planning and market regulation, and carried out step by step the commercialization of capital goods while ensuring the supply of key state materials. On the other hand, we have, by way of developing general capital goods markets, material trade centers, and specialized capital goods markets, built a tangible market and introduced standards for the intangible market to meet the needs of the commercialization of capital goods. Therefore, while improving the economic environment, we should regard the development of the tangible capital goods market as an important undertaking and closely integrate economic means with administrative means by using the market mechanism.

We must establish regular channels for the circulation of materials covered by state plans. We should change the scattered, secret, and invisible transactions into concentrated, open, and visible transactions. Special attention should be paid to establishing step by step an open wholesale trade system, developing a futures market, and improving the way transactions are concluded. Capital goods that lack much in variety, do not require intensive processing, and are sold in large volumes should be supplied on a contractual basis. For goods that require a long production cycle, whose prices fluctuate a lot, and whose suppliers and users are relatively scattered, a futures market should be developed step by step. As for goods that are diverse in variety and specifications, require intensive processing, are sold in small quantities, and are subject to frequent changes, either contractual supply or a futures market should be adopted.

We must pay attention to developing a market network of capital goods. Efforts should be made to build more marketing facilities including material trade centers, specialized markets, general markets, and material supply centers at different levels; and develop and improve a crisscross market network that integrates cities with the countryside. At the same time, further efforts should be made to help specialized materials companies undergo transformation, become the backing and mainstay of markets at various levels, and rely on the market for expansion.

We must establish and consolidate the market economy system. At present, the following work urgently needs to be done: 1) We must clean up the channels of circulation and examine the credentials of the legal persons operating in the market. It is necessary to resolutely crack down on companies engaged in speculation and reselling for a profit, and to solve the problem of having too many companies and of the scope of business operation not being clearly defined. 2) We must formulate laws and regulations governing market operations and business transactions, including a commercial law, a law against monopoly, fraud, and making staggering profits, and a law governing negotiable instruments; draw up laws governing marketing organs including regulations on the management of a capital goods market and a company

law; and work out laws and regulations governing intermediate organs and their activities, including regulations on the administration of brokers and a law on trade associations. 3) We must strengthen economic supervision. All business units must submit reports on their business transactions and ban "briefcase" companies and the practice of securing wholesale goods by way of bribery for the purpose of speculation.

We must introduce and improve measures of state control and regulations over the market. The market is a unified entity, and for a unified market there should be unified supervision. Government departments should strengthen price administration, set strict rules on pricing authority, and use regulation by means of taxation to plug loopholes in the pricing system that have been used in reselling capital goods for a profit. One of the basic principles of government leadership over the market is to oppose all forms of monopoly and create a market environment in which everybody is able to compete on an equal footing. At present, some laws and regulations are enforced in such a way that they often rather tightly restrict state material enterprises but are less rigorous toward companies run by bureaucrats and collective and individual businesses. This policy has hurt the legitimate interests of material enterprises and prevented them from playing their role as main channels. The authorities concerned should pay attention to this.

## FOREIGN TRADE, INVESTMENT

**Increase in Software Exports Termed Priority**  
*HK1212005088 Beijing CHINA DAILY in English*  
12 Dec 88 p 1

[By staff reporter Guo Zhongshi]

[Text] China's computer industry leaders are giving top priority for the next few years to a big build-up in exports of home-made software commodities.

Their emphasis is expected to bring about the establishment of a comprehensive system of software research, production, circulation, maintenance, management, and service—all this in a country where the software industry has yet to take shape.

The move will generate new industrial development policies which will greatly favour export-oriented computer firms, while strictly limiting the imports of some small, unnecessary and expensive computers, CHINA DAILY learned from a national computer development conference which closed in Beijing yesterday.

But Zou Jiahua, minister of machinery and electronic industries, told the conference that China will continue to import advanced computer technology. "It is worth spending our money to buy a high starting point," he said.

Despite more than 30 years of home production history, China's computer industry today is still faced with a domestic market that is too small to prop up large-scale development. Zeng Peiyan, vice-minister of machinery and electronic industries, said at the meeting that total annual sales of computers within China would barely exceed 5 billion yuan (about \$1.3 billion) over the next three years.

In addition to stiff competition from imported computers, most of China's computer manufacturers are also plagued by rising prices for imported computer components and raw materials. This left China's computer industry defenceless, said Zeng. It was unable to compete with foreign counterparts and failed to satisfy domestic demand.

But despite the seriousness of the situation, China's computer industry was blessed with good opportunities and favourable conditions—huge demand on the world market and a steadily growing domestic market.

Informed sources say that by 1991 the total world computer sales volume will top \$250 billion, with the United States being the market leader.

Although experts predicted an annual average increase of 14 percent in computer sales between 1986 and 1991, the actual growth rate has already surpassed 20 percent.

Zeng said there is great potential for China to sell medium- and low-technology computer parts and products to the United States and European countries.

As a result of this, it was imperative to set up a national software industry and export its products.

To help speed up this process, Zeng said, his ministry had concentrated its efforts on the research and formulation of software standards so that applied software commodities could be put into mass production.

A national research, maintenance, and evaluation centre should be built to guarantee success for software products and improve quality, he said.

## Building Materials Industry Becomes Export-Oriented

*HK1512151388 Beijing CEI Database in English*  
15 Dec 88

[Text] Beijing (CEI)—China's building materials industry will become more export-oriented, a senior official said recently.

The official from the State Bureau of Building Materials Industry said that the industry must manufacture more varieties of high quality cement, glass, pottery, and decorative materials to boost its export.

Special ports, docks, and storage facilities should be built to upgrade the transportation of the materials, he said.

More investment should be introduced to set up building materials, export centers, large- and medium-sized enterprises of building materials, and upgrade some existing enterprises of the kind.

Last year, China earned 500 million U.S. dollars from the export of building materials.

He estimated that the industry will turn out nearly 700 million U.S. dollars worth of goods for export this year, a 30 percent rise over 1987.

The exports include nonmetallic materials, glass, porcelain toilet fixtures, waterproof materials, graphite, and talcum.

China has 220,000 businesses with a work-force of 13 million engaged in the building materials trade, the official said.

### **Ways To Improve Economic Returns From Exports Outlined**

40060134 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 10, 30 Oct 88 pp 41-43

[Article by Qun Shan 5028 1472: "Ways To Improve Economic Returns From Foreign Trade Exports"]

[Text] Along with China's development of an export-oriented economy, our enterprises are exporting more and more products every day and constantly expanding their foreign trade. But some enterprises have not paid enough attention to economic returns from foreign trade and have sustained quite a few losses and hurt their interests and those of the state. Thus, how to improve economic returns from exports has become an issue demanding a prompt solution. I think that the following areas should be emphasized to improve economic returns from foreign trade exports.

#### **1. Competitive "Dumping" Should Be Avoided**

The issue of export competition within an area often arises in foreign trade. This keeps China's products from capturing international markets and is detrimental to improving economic returns from exports. For instance, Italy is the major importer of China's footwear products, but there has been a sharp drop in our economic returns from shoe exports to Italy in the past few years. China exported 23.4 million pairs of various kinds of shoes to Italy in 1987. This was 40 percent of the volume but only 8 percent of the value of Italy's shoe imports. Their average price was only 1,081 lira per pair, or 21.8 percent less than in 1986, which was considered a "great bargain" by Italy. The major cause of these poor returns is that export volume was out of control and bullish competition forced prices down, resulting in Italy getting

a bargain at China's expense. Electron tubes produced by a small enterprise have been exported for over 3 years at a price of 320 yuan per unit. But another enterprise offered them at a quoted price of 260 yuan per unit to compete for exports, resulting in a bargain to others at our expense and a big drop in our economic returns from exports.

It is necessary to reform our export system and develop export competition, but this should be done with our general interests in mind. While the initiative of all areas should be aroused, the idea of a "national chess game" should also be established and macroeconomic regulation and control functions should be improved. This will make our products more competitive and improve our economic returns.

#### **2. China Must Dare To "Let Foreigners Profit First"**

China's enterprises all want to make many profits from foreigners, but are not so willing to let foreigners profit from them. In fact, a good commodity manager should "dare to let foreigners profits first" and know how to turn "losses" into profits. When a very famous township enterprise in Hangzhou began to do business with foreign businessmen, it had trouble exporting its products because the foreigners were unfamiliar with their quality. Under these circumstances, it took decisive action, made "let foreigners profit first and then profit from them" its enterprise export strategy, gave profit concessions to foreign businessmen, strove for cooperation, and finally made its products competitive with similar ones from countries, such as England and West Germany, and gained a place for them on U.S. markets. After several years of hard work, it now earns over \$3 million a year from exports.

Daring to "let foreigners profit first" is a successful way to break into international markets and obtain long-range returns. When an enterprise puts its products on international markets, it generally takes a while for foreign businessmen to become acquainted with them. Adopting a strategy of profit concession enables people to gradually become familiar with products while making profits, cultivating consumer habits, and forming their own commodity markets. Moreover, a commodity economy is one in which profits are sought, foreign manufacturers and business firms will not come to do business if there are no profits to be made, and cooperation can develop only if both sides profit. In this sense, daring to "let foreigners profit first" is in order to make a lot of money from them. Thus, some "losses" entail profits and returns.

#### **3. News Feedback Should Be Speeded Up To Capture Markets**

A foreign trade department in a certain coastal city recently took some merchandise to certain Central African countries on an exhibition and sales tour. Local consumers there selected many of its products and asked

that they be supplied on the spot. But the merchandise that was taken were "samples" that could not be sold, which made our people set out cheerfully but return disappointed. Moreover, after learning this news, certain other countries and regions promptly found supplies of goods, went there to sell them, and achieved excellent results.

It is essential to use various means to gather international market news. The problem is how to use it once it has been obtained. China's handling of news is relatively backward in the areas of speed, timely effectiveness, and feedback, enabling others to use first the news that we collect. Although there are objective limiting factors that cause this problem, the major cause is that our commodity market predictions are poor. In addition, we act slowly, have tedious foreign trade formalities, and miss chances to use news. Just think, if we analyzed commodity demand possibilities before going abroad for sales exhibitions and took along a suitable amount of ready-to-sell commodities, we could supply pressing demands. If we had a high-speed news feedback capacity that would enable us to supply marketable products quickly, others would not be able to take away our business. Thus, it is extremely important to use news quickly and change it into economic returns from exports.

#### **4. "Large Returns" From "Small Commodities" Should Be Developed**

People often overlook small commodities because their value is low and they do not earn much profit, hardly realizing that wholesale export of small commodities can earn large returns. The Longgang Wickerworks in the city of Yancheng produces over 70 kinds of woven wickerwares according to market consumer demand, which have become much sought after products in countries and regions, such as the U.S., France, Italy, and Southeast Asia. The Huangyan Holiday Lightbulb Plant in Zhejiang has actively developed new holiday lightbulb products to cater to the love in Western countries for bright lights on happy occasions, such as Christmas Eve, marriage celebrations, masquerade balls, and birthday parties, pushing its products onto international markets and earning over \$700,000 a year in foreign exchange. These are cases of small commodities earning large returns.

Many small commodities are distinctive products that China exports to earn foreign exchange and are a specific expression of China's ancient culture. In addition, most of them are handicrafts, which foreign manufacturers and business firms are unable to compete with us in making. If we pay attention to studying foreign consumer habits and continue to create new products, we will be able to open up international market outlets, export more, and earn more foreign exchange.

#### **5. Prices Should Be Set Competitively**

Setting commodity prices for international markets takes a lot of learning, with the whole situation often being affected by a slight move in one part. Using the

strategy of "small profits but quick turnover" generally enables China's products to break into international markets and makes similar foreign products less competitive. But since setting the prices of some commodities too low loses customers, the countermeasure of "high prices and slow turnover" must be used instead to improve economic returns from exports. Some French visitors at the 1986 World's Fair in Paris wanted to buy sets of ornamental china made in Jingdezhen. But upon learning that they sold for only 300 francs a set, many people felt that nothing very good could be bought so cheaply and promptly gave up the idea of buying them. Just think, this may not have happened if high price tactics had been used. Moreover, a Frenchman bought a set of China's Qing Dynasty official dress for the high price of 20,000 francs and hung it in his livingroom to show off his wealth and power.

Expensive products on foreign markets are generally unique ones that are high quality and have enjoyment and collection value, while cheap products are certain daily necessities and "popular goods of dependable quality." Thus, when setting prices for foreign trade products, we must study conscientiously and carefully and cater as much as possible to the habits and needs of foreign customers. Setting prices properly can both promote sales and also improve foreign exchange earnings.

#### **6. "Marginal Returns" Should Be Emphasized**

China's enterprises should emphasize the use of "marginal returns" in their foreign trade management. An enterprise in Northern Jiangsu received a wholesale order for goods from a foreign businessman, who bid 140 yuan per item. The enterprise was able to produce the goods at an average cost of 120 yuan per item through strict accounting and quickly clinched the deal. The enterprise received another bid during the production process from a foreign businessman for more goods, but at a price of only 115 yuan per item. The plant recalculated the average cost of the two orders at 117 yuan per item, thought it would lose money on the deal, and did not want to accept the order. However, the plant manager had the final say and signed the contract. His calculation of the original order included the cost of expanding for mass production, while additional goods could be produced at a cost of only 101 yuan per item. Clinching the deal at a price of 115 yuan per item still earned a profit of 14 yuan per item so he went ahead with it.

This plant manager considered not the average cost of producing all the products, but the cost per unit for additional products, or the "marginal" production cost. As in "marginal" cost, there are also "marginal" input, output, and income, which can all earn "marginal returns" if handled well. Thus, enterprises must calculate precisely in their foreign trade management whether the various essential factors that they use to calculate marginal returns are progressively increasing or decreasing



and then make correct decisions. This will help to improve the "digestive" capacity within enterprises, lower production costs, and improve economic returns.

#### **7. The Use of "International Exchange Rates" Should Be Learned**

When taking part in international economic circulation, risks in using foreign exchange rates will certainly be encountered and undeserved foreign exchange losses will be sustained if they are not handled well. For instance, an enterprise signed a contract with a foreign businessman for export products, guaranteeing both quality and quantity and delivery on schedule according to the foreign businessman's requirements. However, when negotiating the contract, it failed to pay attention to the issue of international exchange rates and deferred the foreign businessman's payment date for the goods by 3 months. Consequently, by the time the foreign businessman paid for the goods, the U.S. dollar had been devalued and our side's actual income was over 200,000 yuan less. Exchange rate fluctuations caused this enterprise's originally profitable business to sustain losses instead.

International capitalist financial markets are generally in a state of flux and foreign exchange rates fluctuate frequently. Thus, when China does business with foreign countries, we should emphasize the study of exchange rate changes, take advantage of news on exchange rate trends, and call in payments for goods sold on foreign markets at the right times in order to prevent and reduce losses resulting from exchange rate fluctuations. Moreover, we should use exchange rate fluctuations to increase our actual foreign exchange income and raise our profits from foreign trade products. If we pay attention only to promoting the sale of products without considering international market exchange rates, we will sustain business losses. This deserves our careful attention.

#### **8. The Interests of Enterprises That Make Products for Export Should Be Protected According to Law**

A foreign trade enterprise in Yunnan exported a number of pigskin gloves to the U.S. After the merchandise was sent out, the foreign businessman marked them "Hong Kong" instead of "Kunming" at the shipping port. This was out of line with the provisions in the letter of credit and payment for the merchandise was refused. The enterprise in Yunnan instituted negotiations with the other party according to the articles in the International Chamber of Commerce's "Unified Practice on Bills of Lading and Letters of Credit" and argued strongly on just grounds. Consequently, the other side could not defend itself and had to pay up completely. However, an enterprise in Guangdong exported \$543,000 worth of shelled peanuts to England in 1987 and the same kind of bill-of-lading error occurred as with the enterprise in

Yunnan. Since the Guangdong enterprise did not protect itself and argue strongly according to law, the other side rejected the merchandise and direct economic losses of \$300,000 were sustained.

The facts show that studying international economic legislation and each country's foreign economic legislation is a foreign trade issue facing China that is demanding a prompt solution. All countries have their own economic legislation to regulate their international economic relations and there are also international legislation and "international practices" that all countries and regions jointly observe. These are weapons that our enterprises must take advantage of and use in their foreign trade management. Only by knowing how to use these economic laws and regulations can we prevent losses in earning foreign exchange from exports and importing foreign technology and ensure that the interests of our enterprises and the state are protected. Thus, when developing products for export markets, our enterprises must definitely study and understand matters, such as international economic relations and trade legislation, traditions and customs, and principles that are jointly observed, and familiarize themselves with the knowledge in this field as quickly as possible in order to serve their foreign trade management, reduce their mistakes as much as possible, and improve their economic returns.

#### **Strategic Options for Development of Country's Externally Oriented Economy**

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[Article by Xia Shen 1115 3947 of the University of International Business and Economics: "On Strategic Options for the Development of China's Externally Oriented Economy, With Comments on the Strategic Concept of the 'Great International Circle'"]

[Text] The process of germination and fermentation of a strategy for developing China's externally oriented economy benefits from the role of the "great international circle" as the "yeast" which hastens the process. This strategy is currently being put into effect in the form of a coastal region economic development strategy. This marks a new era in China's opening up to the outside world. I would like to present a few of my own views concerning a number of strategic options encountered in the course of developing an externally oriented economy.

#### **I. Innovations and Limitations of the "Great International Circle" Theory**

The issue of a development strategy for China's externally oriented economy was brought up earlier during the debates on the theory of comparative advantage and international price theory. This time, however, in probing the "great international circle," the theoretical flavor



is stronger and the strategic field of vision is broader. In all fairness, the fresh thinking of the "great international circle" contains a profound economic theory which surpasses in depth of thought any previous strategy for opening up to the outside world and is a high-level summation of these types of valuable strategic approaches.

I believe that the "great international circle" makes at least the following innovations: (1) The "great international circle" theory, as a strategic concept, transcends in one leap the cycle in which the closed economy has enclosed itself and the traditional model of coordinated development of agriculture, light industry, and heavy industry, in that order of priority, and advocates the reexamination and reconsideration of new development strategies under the conditions of an open economy. The new strategy places the national economy within the larger context of international economy, bringing it into the great system of international division of labor and international trade, and deliberately considers on a worldwide scale the reproduction and actualization process of all social products, thereby reflecting a strong international consciousness and a high level of openness. (2) The "great international circle" has incorporated diverse elements, comprehensively utilizing various mature theoretical forms of contemporary international economics, development economics, and industrial and regional economics, and organically combining into one entity Ohlin's factory endowment theory, Meade's surplus outlet theory, and Lewis's dual economy theory, as well as his industrial structure theory and regional economy theory. Its outstanding feature is that it goes down to the factor level seeking new strategies, and has provided a microanalytic basis for strategic problems. (3) The "great international circle" has stressed the theme of development. Starting from the basic contradiction of the national economy's "dual structure," it introduces a new line of thought with regard to how to simultaneously resolve two actual problems under conditions of an open economy: industrial structure improvement and transfer of rural surplus labor. This is a concept of development-oriented opening. Rather than going around in circles over production relations, as current reform thought does, it combines opening and development to form productive force, and uses opening as the engine of development to start and push forward reform, thereby firmly adhering to the principle of putting transformation of productive force ahead of, and above, transformation of production relations. (4) The "great international circle" introduces the elements of time and space into the development sequence or development chain. It advocates using an unbalanced, slanted type of development in which China's eastern region takes the lead in "going overseas" as a means of seeking to achieve balanced development of the national economy on a new basis. It is by no means limited to a specific strategy for the coastal region alone; rather, it has the character of a strategy for the overall development of the national economy.

Innovation breaks through tradition, but at the same time it implicitly contains elements which hinder it. For example, when a major nation has been implementing internally oriented development for a long period of time goes from being closed to being open, its domestic circle inevitably restricts its international circle. When a nation whose economic relations are not yet straightened out intensifies its opening, the sluggishness of system reform and the distortion of the market mechanism are liable to check the pace of opening. A development model in which the east takes the lead in becoming externally oriented and is given priority in taking off contains the latent possibility of aggravating unbalanced development among regions. Academic circles are in a hubbub over this. However, I want to stress that the "great international circle," as an externally oriented development strategy, itself has several serious limitations, and it is these limitations which stipulated that the "great international circle" can only be an elementary strategy for externally oriented development, with a low starting point and a low level. It can become a part of the overall strategy for China's opening up to the outside world, but it is by no means the whole strategy. Its limitations appear primarily in the following aspects: (1) Although the "great international circle" has utilized well-known classical and neo-classical international trade theories, it has utilized very few of the international trade, investment, and production theories which have begun to develop since the 1970's, and it is therefore limited from a theoretical point of view. The theoretical framework applied indiscriminately by the new strategy reflects perfectly the outmoded, backward state of China's open economy theory. (2) The "great international circle" lacks deep research into the current international division of labor structure and international economic operation mechanism, and its thought has not yet broken away from the unitary model of engaging only in trade. It must be borne in mind that modern international economic strategy is highly comprehensive and pluralized; it requires a nation to choose the most suitable form of international division of labor and method of international economic activity, and to deploy and utilize its own resources most effectively on a worldwide scale. The solely trade-oriented "great international circle" is merely a reflection of outmoded international experience, and is related to the immaturity of China's open economy and the imperfection of the open economy's operational mechanism. (3) Although the "great international circle" theory has penetrated deeply into factor of production analysis, it has not yet analyzed the level of labor force factors themselves. The factor level that it advocates using is too low, and this causes it to choose inappropriately when considering what kind of factors, products, enterprises, and industries should make up the main body in joining the international circle. (4) The overall strategy of opening up to the outside world not only requires the international utilization of labor force and capital factors; it also requires that technology, management, and information factors join the international circle, either alone

or in combination, and either unidirectionally or bidirectionally. It also requires referring to the horizontal international division of labor and intraregional, intraindustrial, and intrafirm international division of labor form, which occupies the leading position in the world today, and opening up and forming new trade and investment structures. The "great international circle" strategy has not adequately responded to these new tasks.

## II. International Industrial Structural Adjustment and Externally Oriented Development

We will now discuss again the external conditions and environmental factors in developing an externally oriented economy. The line of thought of the "great international circle" is presented based on the contradiction inherent in the dualization of China's industrial structure, and is a logical corollary of this contradiction's dynamic adjustment process. It lays particular emphasis on the necessity of reducing externally oriented development from the domestic economic circle, but considering the external climate of the world economy, the feasibility of this is rather slight. The doubts of scholars within China regarding the external conditions of the "great international circle" are concentrated on the restraining conditions of the world market, such as the fact that the world economy's low rate of growth creates such problems as limited market capacity and trade protectionism. However, discussion in this area has not yet touched on a more central, more essential question; namely, whether world industrial structural adjustment has provided a favorable opportunity and suitable conditions for China's externally oriented development.

We should soberly recognize that contemporary international industrial structural adjustment has distinctly dual features; that is, the raising of the structural level and the remolding of the structural content have been developed equally, and this has brought the new feature of international competition.

The general pattern of the international industrial shift makes clear to us that generally all traditional industries have a tendency to make a "migratory bird-type" shift to developing nations with low wages and low costs, in accordance with the international product cycle. The current wave of new scientific and technological revolution has further accelerated the rhythm of the cyclical renewal of products and industry; recently, changes in currency relations have given rise to changes in comparative advantage among various nations of the Asian-Pacific region. Therefore, global adjustments of industrial structure similar to those of the 1960's have appeared in the second half of the 1980's. This is a rare opportunity granted us by history. At present, the international industrial structural shift proceeds primarily along two lines: the first is further shifting away from developed nations by certain labor-intensive processes in declining industries and high tech industries; the second is the transfer of certain labor-intensive industries from

newly industrialized countries and regions with weakened currency exchange rate and wage cost advantages to other developing nations. Regardless of which line the transfer follows, China's main competitors for international direct investments are the newly industrialized and currently industrializing Asian nations and regions. The inferiority of the intangible aspects of China's investment climate compared with those of its competitors is a "bottleneck" in China's absorption of foreign capital. There are other distressing problems: the closed, internally oriented, super-stable industrial structure which China has formed over a long period of time displays the characteristics of slowness, gradual change, and rigidity in structural replacement, and obstructs and restricts the entry of outside industries and enterprises. It must be born in mind that world industrial structural adjustment is essentially the international transfer of productive forces; it is the international transfer, in one stroke, of enterprises and their capital, technology, and markets. If we lose the initiative in this, we will be excluded from the world market for labor-intensive products, and China's entire externally oriented economic development will become unfeasible.

It is apparent from this that the current upgrading and regional transfer of the international industrial structure is both an opportunity and a challenge. What is worthy of attention is that, in addition to this challenge, another, perhaps more serious challenge is quietly approaching. This is the intensive transformation of the industrial structure of developed nations. Developed nations are using the gradually achieved results of the new technological revolution to radically transform the appearance of their traditional industries. Once they achieve labor-saving major technological advances and establish a mechanism for substituting labor with technology (rather than capital), they are certain to stage a comeback. There are now clues appearing which suggest that traditional industries will return to their "paternal homes," and "smokestack industries" will again be spewing forth smoke. The effect on raw material-intensive and labor-intensive products of the economizing and substitution brought about by scientific and technological progress has further shrunk developed nation's share of the export market and caused unfavorable changes in developing nations' export demand flexibility and commodity trade conditions. Although the trend toward reversal of the hollowing of the industrial structure of developed nations is not fully evident, it has brought an element of uncertainty to the actual prospects of China's labor-intensive product exports, and has increased China's sense of urgency in seeking a labor force advantage. At the same time, it has also offset, to a certain degree, the effect of shifting the international industrial structure, and increased China's difficulty in absorbing and utilizing direct international investment. Clearly, these factors must be taken into account when China is formulating its strategy for developing an externally oriented economy.

### III. Choice of the Main Body of Factors, Products, and Enterprises in Externally Oriented Development

A basic point set forth in the "great international circle" strategy concept is that the large rural surplus labor force awaits transfer to nonagricultural regions. Since it is difficult for the domestic economic circle to absorb this portion of the labor force, this portion can, through the labor mix of township enterprises, be shifted to light industrial and textile products or agricultural products, which require the intensive use of the labor factor. Then, the international market's transformation mechanism can be used to resolve the problem of an outlet for the rural surplus labor force which cannot be accommodated within China. Based on this train of thought, the concept of the "great international circle" takes the rural surplus labor force as the main body of factor utilization, it takes light industry and textile processed goods, which can employ a relatively large amount of this type of labor, as the main body of enterprises developing foreign exchange earnings from exports. It should be stated that going down to the factor level and continuing to expand to the product level and enterprise level in conducting analysis is a major distinguishing feature of the "great international circle" theory, but that it is biased in its specific choice of the parties which will constitute the main body in the development of an externally oriented economy.

Factor analysis is the starting point in choosing a strategy. It may well be asked what China's biggest usable factor endowment advantage is at the present stage. The answer is that there is only labor force advantage. There is no disagreement on this point. However, the question is whether the advantage of China's labor force can be sweepingly summed up as the advantage of the rural surplus labor force. To be sure, as far as quantity is concerned, peasants can be called China's most abundant manpower resource, and this type of manpower resource must be fully utilized in developing labor-intensive export products. However, this type of labor force factor is, after all, at too low a level to be chosen for utilization. In view of the quality of labor force needed to develop an externally oriented economy, China's biggest labor force advantage is not the simple, unskilled rural labor force, but rather the cheap, high-quality, very numerous skilled workers and middle-to-high-level technical personnel in urban industrial enterprises. This is an actual comparative advantage which has long been ignored, and a high-level manpower resource which has not yet been developed and utilized internationally. I propose that we put the modern industries of the large coastal cities into the great international circle; include China's skilled workers and technical personnel, whose absolute quantity is very large, as a high-intensity factor among export goods; replace natural resource-intensive advantage and simple labor-intensive advantage with skilled labor-intensive advantage and technical knowledge-intensive advantage; achieve a transition to a higher level by China's comparative advantage; and promote the improvement of the export structure and industrial structure.

The reasons for which I stress choosing skilled workers and technical personnel as the main body of factor utilization supporting the development of an externally-oriented economy are as follows: (1) Early on, modern economics' theory of factors of production broke through the static hypothesis of factor homogeneity, and stressed that factors were heterogeneous, had levels, and were substitutable and changeable. It also stressed overall comparative examination of the cost and efficiency of labor force factors, and holds that a low-cost but low-efficiency labor force cannot be regarded as the main factor of export goods. As a result of the lack of levels in analysis of factors, low-cost, high-efficiency labor force factors may be overlooked as a "blind spot." (2) Scientific and technological progress broke through the static factor endowment hypothesis, causing a distinction between soft and hard factors and invisible and visible factors to emerge in the forms of factors of production. The high-quality labor force is twice the size of simple labor because it has more abundant manpower capital. After scientific and technological progress enters the trade model as a new factor, it can break through the bounds of the initial state of the production-possibility curve and the limitations of the material factor mix pattern, and form a new proportion of factor volumes, as well as create new comparative advantages. (3) Under the conditions of the new technological revolution, the natural resource-intensive and simple labor-intensive advantages of less advanced nations constantly face the risk of depreciation, and their comparative advantage base therefore undergoes a partial qualitative change in participating in the international division of labor. International experience shows that the sole advantage in the development of externally oriented economies by newly industrialized countries is an ample, relatively high-quality cheap labor force. In this respect, the large absolute quantity of China's high-quality labor force is rare among developing nations, and the relative lowness of China's wages and prices cannot be matched by newly industrialized countries, either. A lasting comparative advantage can be gained by combining the cheap labor-intensive advantage with the technology-intensive advantage. (4) There is a large amount of usable surplus skilled labor in urban industrial enterprises. In China's urban industrial enterprises at present, because of various factors, such as insufficient work starts and over-staffing, there is a large amount of disguised or "hidden" unemployment, unemployed technical workers are found everywhere, and there is a serious wastage of middle- and high-level manpower resources. From the viewpoint of production supply, it is feasible to fully utilize this portion of skilled technical workers to vigorously develop combined labor- and technology-intensive export products.

Once we have clarified the main body of factor utilization, we can then guide the selection of the main body of popular export goods and externally oriented enterprises. I believe that, as export products at China's present stage of externally oriented development, we should first select skilled labor-intensive or combined

labor- and technology-intensive goods; next, we should select those types of goods which have a relatively large amount of substitution elasticity with respect to factor match proportion; third, we should select certain products whose degree of factor-intensiveness may deteriorate. The first type of product in particular has a relatively high elasticity of demand, its added value is relatively high, and it produces a fairly large amount of foreign exchange from export earnings, and it can play a direct role in improving export structure and industrial structure. The principal enterprises having the advantage of manufacturing this type of product are the existing large- and medium-sized urban industrial enterprises, and therefore, speaking in terms of the enterprise level, the role of main force for developing an externally oriented economy should be undertaken by large- and medium-sized enterprises and foreign trade enterprises. Urban industrial enterprises surpass township industrial enterprises, both in respect to inherent quality, degree of organization, technological level, efficiency of resource utilization, scale of economic returns, industrial chain effect, and ability to contend with risks. If these enterprises are endowed with fuller operational autonomy and foreign operational authority, they should also be able to become leading enterprises of externally oriented development, establish ties with township enterprises to form enterprise groups, and organize and develop externally oriented processing and production. As for township enterprises, they are a vital new force for externally oriented development, but because of their own limitations with respect to quality, they cannot yet rise from their present status of "guerrilla forces" to main force, although they may in the future be upgraded to "regional formations." Although it is inadvisable for the state to provide many preferential policies for the externally oriented development of township enterprises, it should create conditions which will allow them to develop freely as they did originally at the outset, flexibly filling in gaps in the international market and enabling them to receive the influence of urban industrial and trade enterprises, forming an "umbrella structure," in order to prevent the surplus labor force transferred from rural areas from competing with urban enterprises in the narrow space created by the identical structures of urban and rural industries, and at the same time prevent township industry from pulling down the industrial level as a whole onto its low, organic base and creating a new "dual structure" within industry.

#### IV. Choosing Between the Traditional and Modern Models of Externally Oriented Development

The low starting point of the "great international circle" strategic concept is reflected not only in the relatively low level of labor force factor utilization and the improper selection of the main body of externally oriented enterprises; even more importantly, the level of international division of labor in which it advocates participation is also relatively low, and its method of engaging in foreign economic activities in excessively unitary. The so-called "both ends abroad, with large

volume of imports and exports" is still part of the traditional trade model of domestic production and foreign exchange. This line of thought basically excludes international investment and production and, moreover, does not take into consideration how to participate in the newer, higher-level international division of labor which has formed since the 1970's. It is therefore a one-sided, low-level international economic circle.

Contemporary international division of labor and cooperation is increasingly breaking away from the traditional model of international division of labor and trade based on factor endowment, and giving rise to a higher form of international division of labor setup characterized by mutual trade and investment within regions, industries, and companies (i.e., within transnational corporations). The pattern of domestic production and foreign exchange is gradually changing to a pattern of international production and transnational operation. Modern international trade is no longer limited to nations supplying each other with needed commodities in the narrow sense; the flow of such factors of production as capital, labor force, technology, management, and information has become closely interwoven with the flow of commodities, and their development has been given equal stress, proceeding to the next step of expansion to mutual linking with the field of international production and investment.

The increasing pluralization of the pattern of international economic activity is the inevitable result of the movement of international productive forces and, conversely, movement of international productive forces also requires close integration and organic unification of a plural pattern of international economic activity. Therefore, various nations in succession have formulated generalized, pluralized strategies for opening up to the outside world, in order to suit the characteristics and needs of modern international competition. Engaging in foreign trade alone is part of the elementary form of the traditional international operation pattern, and fairly great risks and uncertainties lie latent in this model. If a nation wants to more quickly promote an externally oriented economy, it cannot always use just the one "vehicle" of foreign trade; unless it at the same time introduces other international activity patterns into the great international circle, then it will merely expand exports, and will very likely get caught in a vicious circle. Based on this recognition, certain front-rank developing nations have already broken away from the unitary model of relying on export trade to form economic ties with the international market. They have gradually become able to clearly understand and take advantage of various relations of dependence and substitutions in patterns of international economic activities; begun a series of fairly complex international activities, including direct foreign investment involving the transfer of combined factors of production; and established new transnational corporations which combine the functions of export trade, foreign investment, and technology transfer. This newest strategy for international economic development is extremely worthy of our attention.

All of this shows that the overall strategy for opening up to the outside world formulated by China must take into account the latest international division of labor and international trade setup, and must work out a modern model of pluralized, multilevel, multipositional externally oriented development.

When implementing an externally oriented development strategy, we must guard against insisting on one model, whether it be "both ends abroad," or "one end abroad," or "three ends abroad" (i.e., the entire industrial capital movement process, including as its links the purchase of raw materials, production, and marketing). There are several combinations in this, and different choices should be allowed. Coastal industry's source of input goods and product market are heavily dependent on the international market, and should adhere to the principle of maximizing economic returns and form naturally in both the domestic and foreign markets. From commodity trade to technology transfer, and from capital flow to the establishment of overseas enterprises and transnational corporations—all of these should be controlled by the commodity economy movement mechanism. It should be possible to clearly and unmistakably transmit the price disparity between domestic and foreign commodity and factor markets to enterprises, enabling them to respond acutely and accurately in the disposition of resources. The state, through mere regulation of the market, indirectly guides market behavior, while actually allowing the market price mechanism to become the main force in the change and development of foreign economic relations. Only in this way can externally oriented enterprises survive and develop, and the modern model of pluralized development of externally oriented economy show its superiority to the traditional model and supersede it.

Naturally, today, when economic opening is immature, it is much easier to implement foreign trade than to implement foreign investment; it has long been the basic foreign economic activity. However, there is still a distinction between vertical and horizontal trade, between interindustry and intraindustry trade, and between intercompany and intracompany trade, and since the latter types of trade in each of these pairs are rising to the leading position, there is a problem of choosing which type of trade to develop, from the standpoint of importing large volumes of raw materials and exporting processed goods, which is the line of thought which the "great international circle" advocates adopting. We can also draw a lesson from the experience of transnational corporation development and choose a region with abundant raw materials and great market potential strength to invest in the establishment of factories, ensuring a stable supply of raw materials and sales markets; in other words, use the internalized advantage of the supply and demand relationship determined in transnational corporations' internal markets to ensure the smooth implementation of reproduction, and provide a substantially more reliable guarantee of "large volumes of imports and exports." Even so, even if a

resource needed for the development of an externally oriented economy is available domestically, it is still possible, on the grounds that the developed region's comparative advantage is poor, to use this international production method to resolve the domestic resource problem. This method is internationally valid, and tallies with precedents in China's actual situation, which have had no lack of success domestically.

Viewed from the standpoint of strategic decisionmaking, China's externally oriented economy development plan should have a relatively high starting point, a relatively high level, and a relatively broad field of vision; it should be based on today, and at the same time think about tomorrow, and in making a move it should look several moves ahead. We must make an effort to learn the things that we are not familiar with and cannot do today, and make a bolder entrance on the stage of international economy. It is by no means the case that we have attempted and accomplished nothing in this respect. For example, 1987 was a year in which China had an illustrious record in the use of direct international investment. In particular, the amount of direct foreign investment doubled in only one year, the speed of development attracted the world's attention, and now there are over 400 overseas production enterprises. At present, there is still no decline in the outflow of China's enterprises. I believe that the development of foreign economic relations and trade should have transnational corporations as its main operational entities and follow the route of pluralized comprehensive operations. It should enable the resource factors which constitute processing capability and enterprises themselves to begin moving on the international market and develop from simple products toward resource factors and enterprise entities. It should also allow foreign enterprises to become the link or channel through which the domestic circle enters the international circle, and to become a buffer and control device which provides feedback, contends with external blows, and can continuously maintain the domestic circle on the track of a favorable circle. In order to allow externally oriented development to advance to the next stage in terms of scale and level, it is essential to promote China's considerably powerful large- and medium-sized industrial enterprises, trade enterprises, and financial enterprises to the first line of transnational operation and, with these as the main body, participate in a high-level form of international division of labor. We must provide these enterprises with many foreign operating rights and externally oriented operational mechanisms and, to the extent possible, provide these international corporations with the conditions for fair competition on an equal footing with foreign enterprises. At the present stage, the state should stress support for the development of trade and finance enterprises as leading monopolistic transnational corporations, promote the syndication of externally oriented enterprises, and create the conditions needed for comprehensive operation by transnational production enterprises and international engineering contract corporations already operating overseas. We place the greatest

hopes on the growth of uniquely Chinese transnational corporations, and we can say without the slightest exaggeration that they represent the future of the flourishing development of China's mission of opening up to the outside world.

#### **V. The Place of China's Central and Western Regions in the New Strategy, and Their Strategic Options**

The new strategy has affirmed the slanted, unbalanced development of China's coastal region with respect to externally oriented economy; affirmed the natural uneven but continuous development of the division of labor of the various regions according to the principle of comparative advantage, and affirmed the staggered order of progressive development of the Eastern and Western regions and reapportionment of benefits between them. Under the implementation of the new strategy, the series of mutual economic relations between east and west must be reassessed and readjusted, and the central and western regions should choose development strategies suited to their own conditions, as well as promote the coastal region's externally oriented development.

First, we will make several basic assessments of economic conditions in the central and western regions after the opening of the coastal region. From the standpoint of advantages, the coastal region's "large volume of imports and exports" can ease the pressure on provinces in the interior caused by the demand for their raw materials, and perhaps also cede a portion of the domestic market, so that the central and western regions may take advantage of the opportunity to develop and rise. However, from the standpoint of disadvantages, such preferential policies as allowing a large amount of foreign exchange retention by the coastal region forces up the purchase price for the resources of the provinces of the central and western regions, which is bound to intensify the outflow of these regions' resource exports and supply of export goods, thereby adversely affecting the economic development of the central and western regions and the accomplishment of their task of achieving foreign exchange earnings; since the labor productivity of the various levels of coastal enterprises is generally higher than that of enterprises in the interior, and since the industrial structures of the two tend to be similar and domestic sales have larger returns and less risk than foreign sales, coastal enterprises, in the process of seeking maximization of profits, are not likely to easily or automatically cede the domestic markets which they have already occupied to enterprises in the interior; the coastal region's "both ends abroad" is likely to be affected more severely by fluctuations in the international market, and once externally oriented development suffers a setback, it may return to the domestic market like the turning of the tide, changing "both ends abroad" to "both ends in China," and disrupting the sequence of progressive industrial development and the order of market competition which are in the process of being formed, which would cause fairly serious economic

repercussions; and the interior's import substitution-based domestic consumption-type development is further hindered by the existence of hard-to-resolve contradictions in foreign exchange and tariff policy planning. Therefore, we cannot rule out the possibility that coastal development of an externally oriented economy will further increase the disparity between the eastern and western regions and sacrifice the economic benefits of the central and western regions in exchange for the development of the eastern region.

Therefore, I believe that the central and western regions can consider adopting the following measures with respect to development policy: (1) Resources strategy. While the central and western regions cannot implement local protectionism with respect to the resources issue and blindly retain their resources, they must change their present "transfusion-style" resources export situation. They can consider implementing appropriate compensation for resources within the plan which are shipped to eastern industrial regions, while channeling resources outside the plan onto the market and allowing supply and demand of raw materials to meet on the market. Otherwise, the low price of resources could not compel the eastern region to adopt "large-volume importing" behavior, and the eastern region might continue to rely on resource supply from the central and western regions. In addition, the central and western regions should try to develop multiple processed exports and give full play to their resource endowment advantage. They can even consider leasing certain mineral resources to foreign firms for development, changing the current low-efficiency, high-wastage development by town and township enterprises. (2) Market strategy. The state should adopt a combined "carrot and stick" policy to drive the eastern region overseas. It can consider adopting the method of "combining taxes" (imposing a tax on domestic sales), loans (preferential interest rates on export loans), price (price hikes for processing which uses raw materials in short supply domestically), exchange rates (the foreign exchange regulation market implements exchange rate fluctuation), and tariffs (raising effective protective tariff rates for export enterprises). This would create an internal mechanism for promoting the voluntary "going overseas" by coastal regions and making them clear out of the domestic market. The provinces of the central and western regions, in developing export products, can strengthen their lateral economic ties with the coastal region, select several industries and products in which they have a comparative advantage, and establish "jointly financed" and "jointly operated" domestic enterprises, with the coastal region supplying technology and capital and the central and western regions supplying resources; both sides develop their strengths and avoid their shortcomings, benefit each other, and develop jointly. In addition, the central and western regions should strengthen their commodity economy mechanism, raise the level of technology, develop multiple processing industry, and rely on their own economic strength and competitive ability to compete with coastal enterprises. Since the industrial structures of the



eastern and western regions are currently tending toward similarity, the result of the competition will be to force the coast to "go abroad." In the process of doing this, they should create the conditions necessary for allowing the central and western regions and the eastern region to compete under conditions of basic equality. (3) Positional strategy. The central region provinces bordering the Chang Jiang utilize the river to go east, and the provinces not bordering the Chang Jiang export from eastern region ports. The northwest region develops northward (the Soviet Union and Eastern Europe) and westward (the silk road). The southwest region develops southward (Southeast and Southern Asia) and westward (the Middle East). (4) Internationalization strategy. The provinces of the central and western regions can concentrate their own economic strength and manpower resources and use the enterprise internationalization method to bypass the coastal region, directly making inroads into the international market. They can establish trade- and finance-oriented transnational corporations, and can also establish transnational corporation with the economically strong, original tertiary industrial enterprises as their main bodies, and through the internationalization of one or several enterprises spur the internationalization of a province or region, opening up a new pattern of externally oriented economic development in the central and western regions. (5) Talented personnel strategy. With respect to the talented personnel problem, the central and western region, in addition to training its own externally oriented specialists, should give attention to adopting the methods of attracting talented personnel and local employment of talented personnel from the eastern region. The method of local employment of talented personnel is for the central and western regions to provide the "hardware" and the eastern region to provide the "software," with both sides cooperating in developing businesses in the first line of opening up to the outside world.

**Henan Province Increases Exports**  
*OW1412072888 Beijing XINHUA in English*  
1258 GMT 12 Dec 88

[Text] Zhengzhou, December 12 (XINHUA)—By the end of last month, Henan Province's exports had surpassed 720 million U.S. dollars, 16.1 percent higher than for the same period last year. The province has now fulfilled its export target for the year, local officials said.

According to the head of the provincial department of foreign economic relations and trade, it is expected that exports will reach 750 million U.S. dollars this year.

This year, a contract system has been adopted in the foreign trade departments and in export-oriented enterprises. This has meant that enterprises in the light industry, garment, and handicraft trades, for example, are responsible for their profits and losses in their foreign business.

These enterprises have also been given greater power to manage their own business.

By the end of October, profits of export-oriented enterprises at prefecture and county level were more than 48 million yuan, compared with losses of 18 million yuan in the same period of 1987.

This year, the export volume of electronic and machinery products has increased by 30 percent, and that of garments by more than 50 percent compared with last year.

**Hunan Attracts Foreign Investment**

*OW1112202088 Beijing XINHUA in English*  
1310 GMT 11 Dec 88 pkx p07xt  
[Text] Changsha, December 11 (XINHUA)—By the end of November this year Hunan Province in central China had contracted a foreign investment of 400 million U.S. dollars, according to Tang Zhixig, director of the Hunan Provincial Committee of Foreign Economic Relations and Trade, today.

Of the sum, 300 million U.S. dollars came from foreign loans and 100 million U.S. dollars were investment from foreign businessmen, he said.

Tang attributed the fund inflow to the improvement of the local investment environment. In October 1986, Hunan worked out a package of preferential policies to attract foreign funds and supportive measures were added this year.

"Now foreign businessmen can contract lease or purchase local enterprises and approval procedures of foreign-funded projects have been greatly simplified since the provincial government has organized a special working group to handle the matters concerned," Tang said.

To expand economic exchanges with the outside world, Hunan will hold its first economic and technology fair in Hong Kong from December 12 to 20.

"A total of 460 projects involving light industry, textiles, machinery, electronics, power industry, and tourism will be offered for foreign cooperation at the fair," Tang said.

Technology exports, labor service and commodity imports and exports will also be discussed at the fair, he added.

**Shandong Foreign Trade Achievements Reported**  
*SK1812071788 Jinan Shandong Provincial Service*  
in Mandarin 2300 GMT 18 Dec 88

[Text] According to our station correspondent's report on information obtained from the provincial foreign economic and trade commission, our province has achieved stable development in its foreign economic and trade work by unswervingly and realistically enforcing the economic strategy of coastal areas.

In 1988, our province, by using international markets as a guiding direction, has regularized, optimized, and readjusted its productive forces and the structure of industries and technologies and emphatically grasped the building of bases for turning out export commodities and production systems. On the basis of fully carrying out project appraisals, cities that have opened to the outside world have established a file of projects in which foreign funds can be used. During the January-November period this year, the province newly signed contracts for 285 projects in which foreign funds have been introduced and which are worth more than \$270 million, for a 1.4-fold increase over the same period in 1987. The province approved 126 foreign-funded enterprises whose number is equal to the total scored over the past 10 years. The province also approved 146 new projects with regard to carrying out processing of products with materials or samples provided from abroad or assembling products with parts provided from abroad and with regard to paying for the imported advanced equipment with products. The volume of foreign funds involved in these new projects showed a 96-percent increase over the same period in 1987. The structure of investment has also become increasingly reasonable and the projects of a productive nature account for more than 95 percent of the total.

Our province has maintained an export trend of stable increase this year. By the end of November this year, the province's accumulated volume of foreign exchanges earned from exports reached \$2.748 billion, for a 12.1 percent increase over the same period in 1987.

#### **Sichuan's Hopes for Increasing Foreign Trade Examined**

40060160a Beijing GUOJI SHANGBAO in Chinese  
6 Dec 88 p 1

[Article by Correspondent Li Hongmei 2621 4767 2734: "Sichuan Seeks Development of Foreign Trade Despite Difficulties—Zhang Yingwen Talks About the Present Situation and Plans for the Coming Year"]

[Text] Sichuan Province, which has been called the "land of plenty," is also China's most densely populated inland province. What advantages does it have and what difficulties does it face in its development of an export-oriented economy? Recently, the correspondent interviewed Comrade Zhang Yingwen [1728 2019 2429], deputy director of the Sichuan Provincial Economics and Foreign Trade Committee on this question.

Speaking about its advantages, Comrade Zhang Yingwen told the reporter that Sichuan has abundant mineral, energy, and agricultural resources. A total of 134 different minerals have been found, and reserves verified for 78 of them, the reserves of vanadium, titanium, cobalt, strontium, gallium, and Glauber's salt being the largest in the country, and the reserves of ferrous metals such as iron and manganese being the second largest in the country. It has as much as 150 million kilowatts of water

energy, or one-fourth of the country's total amount. Sichuan is one of the country's foremost agricultural regions, and accounts for one-third of the country's natural silk output. Its industrial base is also very solid. Not only does it have fine facilities for the machine, chemical, and electronics industries, in particular, but it also has a very good foundation in technically qualified personnel. All these things are advantages for Sichuan Province, which has put them to use during the past several years for very great development of its foreign trade. In 1983, it began its own export of some products, and by 1985 it had shaped its own complete export structure, the volume of its exports also increasing by leaps and bounds. In 1983, it had foreign exchange earnings of only \$94.5 million, but by 1987 they amounted to more than \$500 million, Sichuan vaulting from twentieth to thirteenth place in the country. During 1988, every company instituted contracting, which stimulated enterprises' vitality, and produced a 106.35 percent fulfillment of plan by the end of October. This was 18.8 percent more than for the same period in 1987. Unless problems arise during the next 2 months, the province's exports, those from Chongqing City added in, may reach \$880 million for the completion of Seventh 5-Year Plan quotas 2 years ahead of schedule.

In speaking about difficulties, Comrade Zhang Yingwen said frankly that the 1989 foreign trade picture is fairly grim. One might say that difficulties will be numerous. First is the shortage of capital. Though Sichuan's exports have increased in recent years, there has been no increase in the amount of working capital, and ever since September 1988, there has been no recycling of procurement funds. The third and fourth quarters are the busy season for procurement of agricultural by-products and primary products, but the money is not available to procure them. In 1988, \$40 million worth of readily salable, low cost goods played a role in generating funds, but there is no assured source of funds for 1989. Second is a rapid rise in prices. Some enterprises sell to whomever offers them the highest price, so there is no supply of goods for foreign trade, and prices continue to rise. Third is a shortage of railroad freight cars. Sichuan needs between 700 and 800 railroad cars a month for its foreign trade. During the best time in 1987, only 670 to 700 per month could be provided, and now the number has fallen to 270. Sometimes the railroad cars are not available to satisfy plan, and goods cannot be shipped. Contracts cannot be fulfilled on time. Fourth is a serious slippage in the supply of goods, the slippage being most serious for raw silk. A slippage in the goods supply amounting to more than 200 million yuan is estimated for 1988. After hearing Deputy Director Zhang's remarks, I had a feeling of "having nowhere to go." However, after making a full estimate of difficulties, they came up with a tactic for find a way out of their difficulties, namely taking a firm grip on the key area of goods supply. Zhang Yingwen said that during the coming year they want to work from a foundation of consolidation, perfection, fleshing out, and improving a new foreign trade system to provide support to production enterprises. They want to form



common cause with production enterprises through joint management and joint operation arrangements, helping them to put emphasis on export goods and on goods having a potential for development so that production enterprises will want to provide more goods for foreign trade and to create new goods for foreign trade. At the same time, contacts with fraternal provinces and cities are to be strengthened to win support from other areas. He added laughingly that they also hope to receive more support from the Ministry of Foreign Economic Relations and Trade and from the central government.

## ECONOMIC ZONES

### Shantou SEZ Gains Reputation for Efficiency

OW1412044488 Beijing XINHUA in English  
1309 GMT 12 Dec 88

[Text] Guangdong, December 12 (XINHUA)—A growing reputation for a high rate of efficiency in issuing licenses and certificates to joint ventures is drawing an increasing number of foreign investors and traders to Shantou, one of China's four pilot special economic zones.

By cutting through "red tape" in government offices, Shantou has improved its working efficiency, especially in terms of registration and licensing procedures for joint ventures. It now takes only a week to obtain the necessary licences, although the time allowed can be up to 30 days.

Impressed by the increase in efficiency, a Hong Kong investor is planning to move his Philippine-based clothing factory to Shantou.

The first 10 months of 1988 have attracted more than 70 million U.S. Dollars worth of foreign investment, 7 times that for the same period of last year.

## POPULATION

### Central Joint Circular Urges Family Planning

OW2012193988 Beijing Domestic Service  
in Mandarin 1600 GMT 13 Dec 88

[Text] The Propaganda Department of the CPC Central Committee and the State Family Planning Commission recently issued a joint circular calling on the various localities to conscientiously unfold activities to publicize family planning this winter and next spring and conduct education on the current situation at the same time.

At present, our country is faced with a grim situation in population control. During the 6 years from 1989 to 1994, each year will have about 100 million women who are at the peak of their child-bearing period. Last year 22 million babies were born in our country and the net population increase reached 17 million. The birth rate has been rising and will seriously influence the smooth progress of reform and economic construction.

The circular calls on family planning departments to coordinate with cultural, educational, public health, judicial, civil affairs, industrial, and commercial departments, and unfold propaganda work on population control, family planning, the current situation and policy, and legal and scientific knowledge through various channels at all levels. Special stress should be placed on those rural areas where family planning work is not satisfactory and people marry early and have more children than the number set by the state. In cities, it is necessary to conduct family planning education for the floating population, individual households, and unemployed people.

The circular points out: In the future, propaganda work on population control and family planning should be included in the regular propaganda work of the various departments, and propaganda work on family planning should be done on a permanent basis.

### More Women Reach Child-Bearing Age

OW1112230888 Beijing XINHUA in English  
1506 GMT 11 Dec 88

[Text] Beijing, December 11 (XINHUA)—In the coming six years, China will be confronted with a more serious population problem since more and more women are coming to their child-bearing age, said Pen Peiyun, minister of the State Family Planning Commission, today.

From 1989 to 1994, each year will see about 100 million Chinese women in their peak period for child-bearing (ageing between 20 and 29), and the figure will not drop until the year 1995, Pen said at a ceremony for awarding good news pieces in family planning reporting.

She also disclosed that the latest sample survey on birth control revealed that in 1987 China had 22 million newborn babies and a net population increase of 17 million.

She described the country's work on birth control as being "imbalance." Less than one third of the country's provinces, autonomous regions and municipalities have a lower birth rate as required by the state, but one fourth of them have been "poor" in family planning, Peng said.

The minister expressed her worry over the situation in China's rural areas where young women marry early, give birth early, and to many children. "This has created problems in rural housing, education, medical care, and other social problems, and China's economic reform needs a better population environment. It is urgent for China to be strict with birth control," Peng said.

## TRANSPORTATION

### Report on Port Construction

HK1512150788 Beijing CEI Database in English  
15 Dec 88

[Text] Beijing (CEI)—Seven new berths have recently been built in Dalian, Shantou and Nantong ports, with a designed handling capacity of over four million tons annually.

They are: the 25,000-ton coal loading and unloading berth, and two 30,000-ton berths for dangerous and special goods with a designed yearly handling capacity of 3.4 million tons in Heshang Island dock of Dalian Port, two 5,000-ton berths with designed yearly handling capacity of 700,000 tons in the dock for grain and assorted goods at Shantou Port; and a 10,000-ton berth for ocean ships and another 1,500-ton berth for Yangtze barges in the No. 3 and No. 4 docks of Nantong Port, with a designed yearly handling capacity of 250,000 tons.

Port construction elsewhere is also developing swiftly. Berths in Dandong Port in Liaoning Province, Daishan Port in Zhejiang, Maoming Port in Guangdong and Yangzi Port in Shandong Province have been completed and put into operation.

#### **Number of Ports Open to Foreign Ships Reaches 41**

HK1912122788 Beijing CEI Database in English  
19 Dec 88

[Text] Beijing (CEI)—The number of Chinese ports opening to foreign ships has reached 41, of which 11 are in Guangdong Province.

These ports are Shantou, Shanwei, Shekou, Huangpu, Guangzhou, Zhanjiang, Chiwan, Wanzai, Meisha, Jiuzhou, and Guanhai in Guangdong Province; Fuzhou, Xiamen, and Quanzhou in Fujian Province; Lianyungang, Nanjing, Zhenjiang, Nantong, and Zhangjiagang in Jiangsu Province; Haikou, Basuo, and Sanya in Hainan Province; Beihai and Fangcheng in Guangxi Zhuang nationality Minority Autonomous Region; Qingdao, Yantai, Shijiu, Weihai, Longkou, and Gangshan in Shandong Province; Zhoushan, Ningbo, and Wenzhou in Zhejiang Province; Dalian, Yingkou, and Dandong in Liaoning Province; Tongjiang and Heishan in Heilongjiang Province; and Qinhuangdao, Tianjin, and Shanghai.

China now has altogether over 200 ports and more than 220 berths of over 10,000 tons. Ninety percent of the country's export goods are dispatched by sea.

### **PRC MEDIA ON FOREIGN ECONOMIES**

#### **Poland's Socialist Ownership of Means of Production Examined**

40060147 Beijing JINGJIXUE DONGTAI  
[ECONOMICS DYNAMICS] in Chinese  
No 11, 5 Nov 88 pp 38-41

[Article by Wang Defeng 3769 1795 7364: "Polish Theory and Experience in the Socialist Ownership System"]

[Text] As economic and political reforms have continued to unfold in Poland, Polish economic and theoretical circles have intensified their discussions about socialist

ownership of the means of production. They have proposed a series of patterns, one after the other, intended to socialize the state ownership system and open it to public shareholding. The Polish government is also in the process of exploring and experimenting in this area. We may draw some lessons from these discussions, suggestions, and experiences.

#### **I. On Socialist Ownership of the Means of Production**

Polish economists believe experience in recent years demonstrates that because the workers and staff in state-run enterprises do not enjoy ownership rights, and most only enjoy usage rights, the state of separation that exists between ownership rights and usage rights results in the inability of enterprises under the state ownership system to resolve the following three fundamental economic problems: 1) State-run enterprises tend to pay little attention to accumulation, and instead increase expenditures indiscriminately; 2) The corpus of economic responsibility is unclear and obligations are poorly understood; 3) State ownership of enterprises limits lower-level enthusiasm and initiative for creating new enterprises.

Polish economists believe that the easiest and most feasible way to resolve the above three conflicts is to sell bonds to enterprise workers and staff and make them enterprise creditors, thus using residents' savings in the production sphere to reduce pressure from the consumer market. Issuing bonds to workers and staff will not change the nature of ownership of the means of production, but neither will it resolve all the above problems. Consequently, it is necessary to adopt an additional measure, that is, stocks must be issued, or the workers and staff must be encouraged to become shareholders. This would change the state-run enterprise into a capital stock company (a joint-stock company or a limited-liability company), and the workers and staff would become owners of enterprise property. Any collective group of citizens could set its own agenda for opening a new enterprise and accept any consequent property risks. This kind of shareholding economy, in which workers and staff participate, can raise funds on an extensive scale, resolve funding difficulties that face developing enterprises, and reduce indiscriminate increases in enterprise expenditures. This is an effective means of encouraging workers and staff to keep forging ahead and to feel that they are masters of their own affairs.

Polish scholars point out that in the current stage, while the forces of production are developing, rather than converting to privatization, we must consider individual, collective, class, and societal interests alike and achieve a genuine, effective socialized system that integrates them all. In the future the state component and the cooperative component will develop in concert over the long term, and a small commodities ownership system may coexist for a long time alongside even a small- or intermediate-scale capitalist ownership system. As a new system of social organization, socialism must learn to

make use of every organizational form that subsumes large-scale, medium-scale, and small-scale economic groups. Otherwise there is no future for socialism.

The history of socialist nations verifies that seeking out all different ways of integrating private ownership with public ownership has become one of the most important issues facing those nations. The key to whether socialism can be effective and avoid losing a golden opportunity lies in whether it can find a sound solution to this problem.

Polish economists believe that now, in the second stage of economic reform, Poland must adhere to three fundamental principles of ownership. First, it must pursue a diversified ownership system that subsumes municipal ownership, mixed ownership, group ownership, and all other forms within it. Second, it should expand the scope of forms of ownership that exist outside the state ownership system, that is, private ownership, cooperative ownership, municipal ownership, and collective ownership. Third, it should recognize that capitalist ownership involves production initiative not only in the private sector and in joint-stock companies, but also on the part of the state. Bonds imply that workers and staff offer to buy stock and have the right to participate in the sharing of extra dividends, as well as that a new national debt has been incurred to promote economic development. This represents neither an abandonment of socialist principles nor a conversion to capitalism. Most particularly, it is not privatization. Rather, it is the achievement of true socialism. We cannot erect a wall to separate public ownership from private ownership, or even to separate public ownership from the capitalist form of private ownership. There is no clear line of demarcation between them. Socialism should advance by stages. The test of whether socialism is genuine or a sham lies in determining whether socialized units truly improve labor productivity and whether they genuinely safeguard individual, collective, class, and societal interests.

Polish economists stress that the key to overall economic improvement still rests with effective activity and production among enterprises in the state ownership sector. However, solutions must be diverse, and they must help to achieve a genuine, effective socialism that guarantees a general improvement in the lot of basic social classes and ensures rapid national development.

In their discussions, economists have suggested that in Poland recently the number of people opposed to state ownership of the means of production, or at least those opposed to the state ownership that has existed up to now, is growing larger and larger. The clamor of opposition is escalating, and it includes Poland's economic sphere. The voices of opposition can be divided into three categories. The first category consists of those who advocate socializing the state ownership system in a multitude of ways. The second category consists of those who propose launching privatization anew. The third

category consists of those who advocate instituting the above two changes simultaneously, with the qualification that the state ownership system be guaranteed the dominant role.

Polish economists feel that in a socialist nation there can be three types of ownership of the means of production: individual ownership, private ownership, and public ownership. In a socialist economy public ownership is naturally dominant. In an advanced socialist society private ownership will be eliminated. Individual ownership is the result of a laborer's own efforts or those of the family. There is no hired labor and no ownership of surplus value produced by others. This kind of ownership is of a different character than private ownership. Consequently, individual and public ownership of the means of production are equally reasonable and should be treated equally without discrimination. In a socialist system the existence of individual ownership hinges upon its economic effects. There are no grounds for adopting nationalization policies to counter individual ownership. Any cooperative transformation of individual ownership must proceed on an entirely voluntary basis, without the imposition of legal, political, or economic pressures. In a socialist nation there is also, to a greater or lesser extent, capitalist ownership of the means of production, but we cannot regard this form of ownership as a permanent factor in the socialist economic system.

## II. The Target Pattern of Socialist Public Ownership of the Means of Production

Polish economists believe that, in addition to state ownership, cooperative ownership, and market ownership, public ownership of the means of production should also include the following new forms:

A. A state/stock system, that is, a combination of state ownership and share capital. However, only the staff and workers of any given enterprise have the right to buy stock, and the shares purchased can only be sold to the state or to workers and staff within the enterprise concerned. When a worker leaves the employ of that enterprise he is required to sell his stock.

This kind of ownership system can exist in two forms. In the first form an identical quantity of shares is sold to each person. As a result, the total quantity of shares to be sold must be determined in advance. In the second form the quantities of shares sold and the shares themselves differ, but the maximum amount of stock ownership is set. In line with these two forms we can adopt two different methods: 1) Compulsory stock procurement, in which each worker and staff member must become a shareholder; and 2) Voluntary stock procurement.

As for the substance of this form of ownership system, it is very similar to the state/cooperative ownership system. Staff and worker incomes derive from two components: first the wages they receive based on the quantity and quality of their work, and second, dividends.

B. A state/stock/private ownership system. This kind of ownership system is based on a principle similar to the one discussed above, but differs from it in the following respects: individuals outside the enterprise concerned can also purchase that company's stock and become shareholders in the company. However, stocks must be recorded in the shareholder's name, and the element of state ownership is predominant.

C. A state/bond system or a cooperative/bond system. Bonds are one method of raising money for society. For the most part, enterprises that issue bonds are producing products for national development. The funds raised are not owned by the enterprise; they must be repaid. The use of bonds (natural persons, as well as legal persons may purchase them) constitutes a new form of ownership system.

D. A super-group ownership system. Theoretically speaking, every kind of social group, trade union, social-/professional association, scientific/professional association, and institution of higher education can make preparations to construct a new enterprise. This is the social group form of ownership system. Seeing that this kind of ownership system encompasses every kind of social group—or even if there is only one group, but that group is enormous—we can call this system a super-group ownership. Circumstances show that variants of this kind of public ownership system will rapidly develop in the realm of every kind of economic activity.

E. A super-group/stock system. The system of ownership of the means of production that is produced by integrating all kinds of groups is operated directly by the workers and staff employed. Workers and staff can become shareholders in conformity with a principle similar to the one discussed in the first point above. This is a mixed super-group/stock system. In this system the element of super-group ownership is predominant.

F. A state/super-group ownership system. A super-group ownership system can combine with enterprise associations under the state ownership system to construct all kinds of joint-stock companies. In this kind of joint-stock company either the super-group ownership system or the state ownership system can be predominant.

G. A state/super-group/stock system. This system combines state enterprises with enterprises that are founded based on a super-group/stock system of ownership, establishing enterprises in a mixed, three-part ownership system. In this kind of ownership system the public ownership component should be predominant.

In addition, there are also state/capitalist joint-stock companies. This format, which is familiar to everyone, has been applied in varying degrees in socialist nations.

### III. Five Means of Administering State Capital

Polish economists have proposed five means of administering state capital or, in a mixed ownership system, capital that is predominantly state capital:

A. Direct state administration. This is the method known as a non-parameter system of organization (a directive/centralized allocation system). In this method the central organs of the state administer directly and factory directors (managers) exercise leadership, that is, the factory directors perform entrepreneurial functions (planning, organization, coordination, encouragement, and supervision).

B. Indirect central administration (that is, with the support of parameters and effective laws and regulations) and direct administration and leadership by factory directors (managers). This is known as the factory director responsibility system. Factory directors can be subjected to supervision and examination by state appointed units or supervisory committees. This method, in which entrepreneurs perform a function, has its advantages, but its greatest drawback is that it severely restricts direct socialization.

C. Indirect central administration, direct, autonomous administration by workers and staff, and leadership functions performed by factory directors. This is the "three-self" plan, in which enterprises are self-determining, autonomous, and fully responsible for their own profits and losses. There are many advantages to this scheme, and it is difficult to come to a unanimous decision concerning its disadvantages. There is a danger that shortsightedness and selfish departmentalism may crop up. This scheme holds a predominant position in Poland's current economic reforms.

D. Limited indirect central administration (limited to the adoption of indirect strategies and actions), indirect administration by autonomous workers' organizations (primarily based on market information), and leadership exercised by a factory director selected by the autonomous organizations. This is known as the autonomous enterprise scheme. Given a market/centralized (market-/planned) parameter system, it is possible to accomplish this scheme.

E. Leasing operations. There are two types of leasing operations: 1) Those composed of enterprise workers and staff, and 2) Those composed of natural persons. Strictly speaking, this method can only be used in small-scale economic units, primarily service industries. In order to forestall the familiar shortcomings that accompany this method, we must rigorously define the leasing principles. Given a situation in which workers and staff undertake to lease state property, autonomous workers' organizations should assume direct management. Autonomous workers' organizations should select

a factory director (or manager) and perform leadership functions. Given a market/centralized (market/planned) parameter system, this method can be applied.

Polish economists feel that administrative reforms, programs calculated to implement a market/centralized parameter system, the pursuit of new forms of administration for state capital, and the establishment and development of new patterns of ownership are all intended to improve economic results in the socialist system. Above all, they are intended to improve economic results in the public ownership system, and particularly in the state ownership system.

#### **IV. Joint-Stock Enterprises Are Currently in the Experimental Phase**

Preparations for the establishment of joint-stock enterprises are one of the most crucial aspects of the current second phase of economic reforms in Poland. At the legislative assembly in April 1988, Chairman Messner, of Poland's Council of Ministers, emphasized that in the future Poland must work energetically to enhance flexibility in the forms of economic organization. He said it must establish all kinds of joint-stock companies—including those in which state enterprises, cooperatives, and individuals can participate—transform some state enterprises into joint-stock enterprises, and sell some of the stock in those enterprises to company workers and staff. Right now the establishment of joint-stock enterprises is still in the experimental stage in Poland. There is still no set pattern for joint-stock enterprises, and the formulation of stock system laws and regulations is now under study in the departments concerned.

Poland is now using three methods to establish joint-stock enterprises: First, several factory enterprises or organizations combine forces to purchase an insolvent enterprise and transform it into a joint-stock enterprise. In this way the Warsaw Small Automobile Manufacturing Plant and four other large plants joined forces with the Warsaw government in May 1988 to purchase a state-run construction enterprise employing more than a thousand people. They thereby transformed this enterprise, which had already declared bankruptcy, into a joint-stock enterprise. Second, some enterprise stock is sold to workers and staff in that unit, thus turning the enterprise into a joint state-and-worker-run enterprise. In this way Warsaw's largest sugar plant—the "July 22d Sugar Plant"—and the 6,500-worker Lodz "Defenders of Peace" Cotton Mill are preparing to establish a joint-stock enterprise. The price of stock in the Warsaw Sugar Plant is 25,000 zlotys per share (one dollar is equal to 290 zlotys), and each worker or staff member can buy a maximum of 12 shares. Dividend earnings are higher than interest on savings deposits. In the first year they ran at 20 percent, and in succeeding years they were determined by the state of enterprise production. The price of stock in the Lodz Cotton Mill is 10,000 zlotys per share. Staff and workers can subscribe freely, the number of stock certificates is unlimited, and annual

interest on money paid for shares runs at 8 percent. In addition, the factory uses 7 percent of the allocated interest to fund extra dividends for each share. When a shareholder proposes to divest, the plant must immediately return the stock principal and interest in one lump sum. The plant takes property as security for share certificates. Third, the state and certain collectives and individuals invest together to set up an enterprises. For example, the "Poland's Sail" Travel Company established in May 1988 is a joint-stock company run by state enterprises, cooperatives, and individuals. The first stock offering, worth a total of 180 million zlotys at 10,000 zlotys per share, has already been bought up, and the company is planning a second stock offering. Poland's electronics industry is now deliberating the establishment of an electronics industry joint-stock company in October 1988. At the present time more than 40 companies have applied to join this company.

As far as the proportional distribution of stock is concerned, in enterprises in which individuals can become shareholders it is now generally recommended that the state or a bank subscribe to at least 51 percent of the stock. Regardless of how much stock is held by workers and staff, shareholder rights should be held at only one share. This will preserve the state-owned nature of a joint-stock enterprise. Generally speaking, the quantity of stock sold to enterprise workers and staff will amount to 20 percent of the total enterprise capital. The most powerful organization in a joint-stock company is the stockholders' general meeting. The director can completely control the joint-stock company by determining the company rules and regulations and deciding the work of the supervisory councils and management committees. He is not confined to merely exercising powers set out in legal provisions.

#### **V. Poland Has Announced a Draft "Creditors' Rights Law"**

In order to support economic units, especially to back newly established economic units as they develop production and services, the Polish government has recently announced a draft "Creditors' Rights Law." This is another important legal measure in Poland's second phase of economic reform.

The draft "Creditors' Rights Law" stipulates that the scope of bond procurement is unlimited. They can be purchased by public economic units and also by non-public economic units and natural persons. Bonds can be freely purchased, sold, and transferred. Bond interest is unlimited, and the rate of flux can be pegged to the projected increase in the rate of inflation. Interest earned by subscribers is exempt from income and regulatory taxes.

The draft law stipulates that economic units selling bonds must pay bond principal and interest in accordance with the method and time frame stipulated for the

bond. They may guarantee bondholders that they will fulfill additional obligations, such as that they will provide them with products or labor services produced through bond subsidies.

The draft law also stipulates the following measures to safeguard bond subscribers' interests.

The bond-issuing units must publicly announce the purpose of the bond issue, the total quantity issued, the conditions under which bonds will be redeemed and interest paid, the additional obligations the unit may fulfill, the ratio of total bonds and interest that should be paid to the issuing unit's capital, and the results that may be achieved through the bond measure.

From the day the bonds are issued to the day they are redeemed, bond-issuing units must announce their annual revenues and expenditures in the press.

In addition, the following penalties are also stipulated. Units that issue bonds in the absence of the right to do so or issue bonds that exceed 50 percent of the value of their capital or that exceed the guaranteed amount will be deprived of their freedom for 5 years and be subjected to a fine. Units that fail to announce the actual state of financial liabilities and their true ability to repay bonds, and that use capital obtained through a bond issue for

other than the bond's stated purpose, or that fail to fulfill their obligation to report annual revenues and expenditures in the press, will also be subject to stern penalties.

## AGRICULTURE

### National Rural Savings

40060217e Beijing JINRONG SHIBAO in Chinese  
12 Jan 89 p 1

[Excerpts] [Passage omitted] At the end of December, rural saving deposits in agricultural banks and credit cooperatives totaled 173.452 billion yuan, an increase of 30.262 billion yuan over 1987. Rural per capita savings were 202 yuan, an increase of 35 yuan over 1987. [passage omitted] At the end of December, farm loans from agricultural banks and credit cooperatives totaled 79.115 billion yuan, an increase of 10.506 billion yuan over 1987. [passage omitted]

### Sichuan Grain Storage

40060243a Chengdu SICHUAN RIBAO in Chinese  
15 Dec 88 p 1

[Excerpt] As of 5 December, Sichuan Province had put 3.84 billion kilograms of grain in storage, fulfilling 98.8 percent of the task. [passage omitted]

**Commentary on Press Reform**  
*OW1101022689 Beijing ZHONGGUO JIZHE in  
Chinese No 12, 15 Dec 88 p 1*

[Monthly Commentary by Mo Ru: "Exploration, Debate, and Progress"]

[Text] A foreigner once described China in the midst of reform as "like a uproarious construction site," which does make certain sense. The clamor by the Chinese press on reform is among the various noises heard in the great trend of reforms.

The past decade of press reform represents 10 years of exploration, debate, and, as a fellow journalist said, the first step we finally made.

Chinese news media have flourished unprecedentedly during the years of reform. Never before has Chinese society had so many newspapers, radio stations, TV stations, and different kinds of newspapers. China's press contingent has also expanded unprecedentedly, growing into a great army of hundreds of thousands. Is it because the Chinese were struck with a sudden craving for running newspapers? No. The new situation in China's media industry was created by China's reforms and open policy. These have diversified the party's system of running newspapers by changing from "single-track" to "multi-track," which means expanding a newspaper's unitary function of relaying guidelines and instructions, and making it more of a means of service and having closer links with society. This situation has changed the old pattern of relying on government administrative funds to maintain a newspaper. This is great progress for China's news media industry.

Competition mechanisms were also introduced into the news media industry. Of course, news reporting is itself very competitive. What readers read for the second time cannot be called news any more. However, our news agencies used to be somewhat bureaucratic and monopolized, "the one and the only news sources." Some people became numb and insensitive. It can no longer be the case, with the advent of a news market and competition. To find themselves a place in the market, the numerous newspapers and radio and TV stations have to come up with "true, quality, and fresh" items, learn about the market and readers' needs, and talk with the people on a equal basis, instead of merely giving instructions. Otherwise, it will mean failure. "Readers come first" and "serve the people" have now truly become the major issues editors-in-chief constantly keep in mind. The pressure of competition has forced journalists to pay greater attention to timeliness and quality of their "product." They are now more bent on getting a scoop and capturing significant news items, or of "telling what no one else has told." Competition has injected vitality and freshness into China's media industry and changed its outlook.

The media industry has also made new breakthrough in achieving openness or transparency, and has further demonstrated the spirit of seeking truth from facts. This is the third great progress made by China's news industry. It has always been an important part of the construction of socialist democracy in China to inform people about important events, submit important problems to public discussion, and make party and government affairs known to the public. Undoubtedly, with the progression of China's democratic construction, many so-called forbidden areas and the numerous restraints imposed on the news media in the past will gradually disappear and dissolve. The discussion of practice as the sole criterion for judging truth carried by newspapers 10 years ago is what pioneered the emancipation of minds in China's press circles. What were reviewed and discussed then were remarks once revered as immutable truth or instructions from the highest authorities. The newspapers broke down the old barriers to pursue higher principles: The fundamental tenets of Marxism, the party's ideological line of seeking truth from facts, and the fundamental interests of the people. This discussion emancipated the mind of the whole party, as well as that of the news media itself. Since then, Chinese newspapers have more often reported on how a number of major policy decisions were made, as well as actual discussion at important meetings, and development and ending of major events. They have more often aired people's criticism, voices, and reaction, and brought to light natural and man-made calamities. They have also published different views contending with, or emulating from, each other, and presented facts of universal concern. In a certain sense, accuracy of news refers not only the truth of an isolated local event but also the actual overall situation. The previous practice of reporting only good news and not the bad is very seldom seen today. Filled with problems, conflicts, praise, and criticism, newspapers report both newly emerging and declining matters, successes and setbacks, and outcries of discontent, anxiety, and worry, and joy of victory. This is because the world itself is full of complexity, still more China in the process of reform.

China's press reform is progressing. Despite the gruelling path, we have continually achieved breakthroughs and accumulated new experience in blazing the new road of socialist press theory with Chinese characteristics. This is the mainstream. Of course, in surging ahead in the advance, there are also conflicts, relapses, twists and turns, and sludge holding back our progress. They are not dreadful.

The racket in China's press reform will continue.

The debate over party spirit versus the nature of people will go on. However, along with the practice and deepening of reform, we are confronted with a new task: Party newspapers are, of course, dedicated to the party constitution and scrupulously abide by the principle of

party spirit. How about nonparty organs and newspapers under the condition of "one country with two systems"? This is a practical question awaiting an answer.

The debate over the freedom of press will escalate along with the progress in promoting democracy and opening to the outside world. As there is no freedom without restriction, so is a river without a course useless. By the same token, as restrictions without the stimulation of freedom are ineffective, so there is no river with a fixed course since times memorable. What we want to discuss is seemingly the realistic extent of freedom and restriction.

We are confronted with countless difficulties and contradictions, such as debate between the theories of mouthpiece and communication, conflict between economic efficiency and social benefit, state supervision

versus press independence, journalism and legislation, and so on and so forth. People have shown unprecedented enthusiasm, liveliness, and boldness in their discussions, as well as confusion, ideologically, theoretically, and in their behavior. However, such confusion should be regarded as progress when compared with the shackles and ossification during the heydays of "leftist" trend. Stagnant water cannot raise billows and becomes stale. Reform has stirred the water, raised great waves, and demonstrated its vitality. Amidst conflicts, turbulence, and confusion, dynamic new things and theories may emerge.

There are great hopes for China's press reform. In spite of achievements, much remains to be done. To ensure the success of reform, we must continue to emancipate the mind and seek truth from facts.



## CENTRAL-SOUTH REGION

### Series Explores Poor Relations Between Rural Cadres, Peasants

40050162 Changsha HUNAN RIBAO in Chinese  
22, 23, 30 Nov, 6 Dec 88

[22 Nov p 1]

[Editorial by Xia Yang 0633 7122: "The Complaints of Our Peasant Brethren—First in a Series of Chats About Relations Between Rural Cadres and the Masses"]

[Text] The boundless world is a complex and contradictory world. In the process of reform, opening to the outside world, and the building of socialism with distinctive Chinese characteristics, we may naturally encounter numerous complex contradictions. Nevertheless, the deepening of reform, the development of constructive undertakings, and the improvement and harmonizing of human relations always goes on amidst the constant solving of problems, which is a resolution of contradictions. Consequently, there is no need to be greatly surprised by the problems that arise in the course of reform, or by various inharmonious contradictions in relations among people. A correct attitude should be active and dependable efforts to deal with them and solve them, making inharmonious things harmonious.

One of the matters in human relations that people talk a fairly lot about nowadays is relations between cadres and the masses, which in rural areas means mostly relations between rural cadres and the masses. This is because in hamlets and villages, cadres stand in the front line where they deal directly with the peasant masses, with the result that contradictions between them are fairly prominent, relations between the cadres and the masses being rather tense in quite a few places. Currently, the peasant brethren have complaints and the cadre comrades have unspoken difficulties that both would like to pour out, finding understanding and harmony through pouring them out. Some people say that news commentaries substitute for "the sages" in expressing views. This is only partly so. In addition to taking the place of "the sages" in expressing views, news commentaries also reflect the voice of the public, express the views of the citizenry, and express the views of the grassroots cadres. One should not use the term "express the views" here, but rather use the term "transmit the views." Let us first transmit the complaints of the peasant brethren, and leave the difficulties of the cadre comrades and other matters till later on.

What are the complaints of the peasant brethren? In a nutshell, they are the following:

First, "everyone has his hand out to them, and their burdens are becoming heavier and heavier." Some peasant brethren report that in addition to paying their agricultural taxes, they must also pay 10 to 20 different kinds of fees costing more than 30 yuan per person per

year, and in some places as much as 100 yuan or more. Quite a few peasants have figured out that by the time they pay for seeds, chemical fertilizer, pesticides, plastic mulch, and labor, and after various withholdings, they do not have much left from the farming of 1 mu of land, usually less than 200 yuan. Some peasants say, "Nowadays much is wanted from us, but little is provided. We peasants have become like the flesh of Monk Tang (a sterling character in the novel, *Monkey*) that everyone wants a bite of."

Second, a minority of cadres have a superficial work style; they do their work in a rudimentary and slapdash way. Some of them "fly off on their bicycles in the morning, have a drink of wine at noon, hurry home in the afternoon, and gamble at night (playing poker or other card games)." Some of them "cannot be found most of the time, but come around to 'settle up' after the fall harvest. If you can't 'settle up,' they 'lead away your sow, or remove the roof beam from your house, or tie up your wife.'" In these places, relations between the cadres and the public are rather tense.

Third, some cadres are concerned only about getting rich themselves instead of leading the masses to get rich together, and they compete with the citizenry for gain. This is what is said mostly about rural organizational cadres. Some peasants say that rural organizational cadres make sure to divide up responsibility fields, and make sure to draw their wages, but they rarely do anything for us. In the selection of personnel to be assigned to enterprises, the distribution of the means of production, and the contracting of land, mountain forests, and fish ponds, they get quite a few benefits, however. We cannot win if we go up against them; they have authority, and it is they who have the final say. "They are not village cadres, or organizational cadres, but family cadres."

Fourth, some peasants in needy households report that some rural cadres "dislike the poor and love the rich." They go to the homes of the rich frequently, but to the homes of the poor little. Why is that? "The homes of the rich have things to see and to eat," but "they are not well entertained in needy households. Instead they hear moaning and groaning, so they don't come."

Fifth, prices paid for grain and cotton are too low, and prices asked for the means of production are too high. The peasants say, "What we are offered has a high price, but what is received from us has a low price." "One jin of grain can buy only a single low quality cigarette at negotiated prices, and it takes 2 jin of grain to buy one 'foreign' cigarette. It takes 1 dan of grain to buy 1 kilogram of methamidophos, and 2 dan of grain to buy 1 dan of urea." Home building materials like processed steel, lumber, and cement can be bought only at negotiated prices. "Things not available at parity price can be bought at a high price; things not available over the counter can be bought under the counter, and the masses

do not have things that cadres have." Things like pesticide and chemical fertilizer have to be bought at high prices, and are difficult to find at that.

Et cetera.

Not all of these peasant grievances are justified; they have their one-sided and subjective aspects, and some are overstated. Some contain an element of griping. This is no place for making criticisms, however; rather it is a place just for putting matters on the record, making the situation at lower levels known to higher levels, and providing information for the consideration of leading comrades at all levels, particularly rural cadre comrades. However, we also must realize that these complaints are fairly universal, and that in places where peasant complaints against cadres are fairly numerous, relations between cadres and the masses are being translated into relations between the Party and the masses, and peasant complaints against cadres are being translated into complaints against our Party and government. Therefore, this requires conscientious study, thought, and the adoption of countermeasures.

Agriculture is the foundation of the national economy, and grain is the foundation of the foundation. Though this is an old saying, it is true nevertheless, and still not out of date. If the foundation that is agriculture is not firm, then the building of socialist modernization in China where 800 million of the country's 1 billion population are peasants becomes inconceivable. However, further arousal of peasant enthusiasm in order to stabilize and develop the foundation that is agriculture, particularly the foundation that is grain, poses an extremely great problem. Ten years of reform did arouse peasant enthusiasm, so our agriculture took a big step upward. Now, the peasants are interested in producing products that earn a lot of money, but they have little enthusiasm for growing grain, turning over to the state grain at fixed procurement prices, and re-investing in grain fields. Attracting renewed peasant excitement about growing grain will naturally depend on the continued deepening of reform of the rural system, and on the formulation of new policies; however, improvement and harmonization of relations between cadres and the masses must also be said to be an important element. If cadre-mass relations are not good, and the peasants are not in a good frame of mind, where will their enthusiasm come from? Therefore, we must elevate listening to peasant complaints and improving relations between the peasants and the masses to a high position in order to stir peasant enthusiasm and consolidate the foundation that is agriculture, and elevate it to a high position in order to understand, study and solve problems in the building of socialist modernization.

[23 Nov p 1]

[Editorial by Xia Yang: "Difficulties of Rural Cadres—Second in a Series of Chats About Relations Between Rural Cadres and the Masses"]

[Text] The previous article talked about the complaints of the peasant brethren, and now we are going to talk about the difficulties of rural cadre comrades.

"Rural cadres both draw wages and divide up responsibility fields; township cadres carry an 'iron rice bowl,' and eat 'guaranteed food;' what difficulties have they!" Some peasants talk like this, and some people who do not understand rural cadres talk like this. Possibly this is a case of not being in their shoes, not bearing their responsibilities, and not knowing their problems.

Much of the work of rural cadres at the most basic level consists of "hard tasks" that weigh on them, and that frequently place them at the focal point of contradictions. In addition, there are the barriers between higher and lower levels of authority, the not-very-rapid development of the rural economy, and many problems in urgent need of solution in peasant development of commodity production that they would like to deal with but cannot. As a result, they have numerous difficulties and frustrations for which they require understanding and support.

Rural cadre difficulties show up mostly in several "hards" as follows:

First, it is "hard to make planned parenthood work." Among peasants today, the valuing of males over females still exists. Some who have given birth to two or three girls remain unwilling to give up; they just have to have a boy. Unless action is taken, state population control targets will become a dead letter; yet when action is taken, no matter how nicely put, people say "hard" offensive things. They damn you calling you a "hog castrater" and a "villain." As a result, some rural cadres say that "planned parenthood work is the hardest job to do."

Second, "payments to higher authority and withholdings are hard to accept." Agricultural taxes and grain at a fixed procurement price have to be turned over to the state in full or else. Other withholdings, both those used in the collective and those directly used for the peasants such as for teachers' wages, water conservancy fees, electric power fees, and immunization fees also have to be collected or else. But some peasants simply will not pay, and when rural cadres go to collect grain or money, they are damned with the phrase, "The head of the tithing office is coming."

Third, "public welfare undertakings and rural enterprises are hard to operate." Everyone wants to do things his way in the apportionment of responsibility fields to individual households. In the winter when water conservancy works are repaired, if you say be there on the first day of the lunar new year, some will insist on showing up on the fifteenth, and some will simply not show up at all. When part of an ensemble is ready but another part is not, it is rather difficult to get organized. Generally speaking, collectives have very little accumulated wealth and no financial resources. They also lack skills, so it is fairly hard to operate enterprises. Some township and town cadres also report that township and town branches of various county level units frequently "see what is

going on, but do nothing about it. Each blows his own horn or sings his own song, and each pursues his own goals." On many issues, township and town cadres are in a situation of "not being masters in their own house since the servant girl has the key."

Fourth, the means of production problem is hard to solve. Prices of pesticides, chemical fertilizer, and plastic sheeting used in agriculture are high nowadays, and supplies are short. Rural cadres go begging everywhere to get them, but most of what they bring back has been purchased at negotiated prices. If you come back empty-handed, the peasants say you are "incompetent," and if you buy at negotiated prices, they say you paid too much. You are between a rock and a hard place.

Fifth, civil disputes are hard to mediate. Water conservancy disputes, mountain forest disputes, factional disputes, and family disputes occur frequently nowadays. Unless handled well, some people will break their skulls, and some may drink pesticides. When there are no problems, all is well, but when something happens, people come from all over, and a rural cadre cannot win in self-criticism.

Sixth, "so many meetings and so many guests make it hard to cope." Some township and town cadres have reported that no matter which county organization holds a meeting, they always want the main persons responsible in townships and towns to attend. Even when a dog is to be beaten, some places want a "secretary to take command," and when they exterminate rats, they want the township head to be in charge. Whenever people from higher authority pay a visit, township and town cadres both have to make reports, squire them around, and take them out to dinner. You have to be afraid about not being attentive enough lest you offend them.

Seventh, "when someone misunderstands your meaning, you feel very bad." Quite a few rural cadres say that there are not many good examples for rural cadres to follow with regard to literary and artistic works, and news dispatches, but there is no lack of criticism. Are we all to be criticized?

In addition, "it is hard to make home production assignments" for "half households," and "employment for the children" of township and town cadres is hard, etc. Someone aptly described the difficulties of rural cadres as "carrying sundries on a shoulder pole, balancing a long-handled umbrella, dancing the thunderclap dance, eating starchy water caltrops for food, doing a lot of talking, and being mistreated when at work."

As with the complaints of the peasant brethren reported in the previous section, the difficulties of rural cadre comrades that are reported here are also from actual records. The purpose is to provide leading comrades at all levels with situations to consider, so that our

peasant brethren and people everywhere can better understand and sympathize with our rural cadres in order to give a little push to the deepening of rural reform.

One should recognize that most of these difficulties of rural cadre comrades are real, though naturally reports also contain a certain amount of individual bias. Nevertheless, if we are to solve the conflicts that exist between rural cadres and the masses, only by both understanding the complaints of the peasant brethren and understanding the difficulties of the rural cadre comrades is it possible to find fairly correct methods.

The reporting of troubles is for the purpose of resolving troubles, and the resolving of troubles is for the purpose of stirring enthusiasm and developing productivity. Development of rural productivity, and improvement of the level of agricultural production, particularly the level of grain production, requires two kinds of enthusiasm, one of which is the enthusiasm of the broad masses of peasants, and the other of which is the enthusiasm of the broad masses of rural cadres. In the final analysis, the success of our Party's rural work, rural policies, and rural reforms depends on doing all possible to stir these two enthusiasms. When full play is given to these two kinds of enthusiasm in combination, they become an incomparable force like a tiger with wings, and there is great hope for our building of a modern agriculture.

[30 Nov p 1]

[Editorial by Xia Yang: "The Bridge Between Understanding and Harmony—Third in a Series of Chats About Relations Between Rural Cadres and the Masses"]

[Text] When the peasant brothers have complaints, and rural cadres have difficulties, this means there is a contradiction. Getting contradictions out in the open is for the purpose of resolving them, with harmony being restored to relations between rural cadres and the masses on a new basis.

Misunderstanding breeds contradictions, and understanding brings harmony. Solution to contradictions in relations between rural cadres and the masses requires, first of all, that understanding be encouraged, because understanding is a bridge to harmony.

Understanding is mutual. Rural cadres have to understand the peasants' complaints, and the peasants have to understand rural cadres' difficulties. Wanting the other party to understand oneself, without understanding the other party will not do; each party has to put itself in the position of the other party. Understanding also must be founded on principles, and the principles are the Party's policies, the national good, and the collective benefit. Departure from these principles will mean no common ground for discussion, and no genuine and correct understanding.

How should one regard and understand the contradictions in relations between rural cadres and the masses from the standpoint of the party's policies, or from the standpoint of the national good and the collective benefit?

Let us talk about the planned parenthood issue first. This is the most prominent contradiction in rural cadre-peasant relations. Some peasant brethren want to have more children, and they want boys, in particular, in order to solve the problem of "heirs" to work in agricultural production. These feelings are understandable. Nevertheless, planned parenthood is state policy. Peasant brethren have a duty and a responsibility to carry out this policy, and rural cadres have an even greater duty and responsibility to carry out this policy. The country's population is too large. It already seriously affects development of the national economy, and hurts efforts to improve the people's standard of living. Institution of planned parenthood, having fine children brought up in a fine manner, benefits the nation, families, and the children. This should be and can be thought through. A random sampling showed that people worried about the fast increase in the province's population, particularly so in rural villages in which the birth rate during 1987 was 14.57 per thousand higher than in cities. If you do not practice planned parenthood, marry early and have children early, rural cadres have to step in as part of their job of fulfilling state population control norms. It is entirely proper for them to do so. When they explain till they are blue in the face and you will not listen, if they finally get a little "tough," and levy fines according to regulations, that is also completely understandable. We certainly cannot blame rural cadres for this; if anyone is to be blamed, it is ourselves. Isn't that so peasant brethren?

Let us talk next about the withholdings issue. This is also a fairly conspicuous contradiction in relations between rural cadres and the masses. In some places where the rural economy is not developed, but where the amounts that are paid to higher authority and withheld are substantial, the peasants' burden is fairly heavy. This is a fact. That the peasants complain about this is also understandable. Nevertheless, the payment of grain (as an agricultural tax), and the sale to the state of grain at fixed procurement prices is truly necessary. Just as enterprises have to pay profits and taxes to the state, as well as turn over products, the peasants also have to turn over grain or sell agricultural byproducts to the state. This is an obligation that the peasants must fulfill, and a contribution they must make. If you do not come forward of your own accord to make payments or sell grain, the rural cadres will come to your door to urge you to do so. So what is your complaint? As for other withholdings, none enters the purses of the cadres except for wages paid rural organizational cadres. Some are used to provide for households enjoying the five guarantees [childless and infirm persons who are guaranteed food, clothing, medical care, housing, and burial expenses], and to give special care to disabled servicemen and family

members of revolutionary martyrs and servicemen. Some is used for education and health, and some is used to pay peasant electricity bills, or to pay for the inoculation of livestock and poultry. This is all taken from the people for use by the people, so there should be no complaints. If the rural economy is developed and there are no or few withholdings, naturally things are better. However, without the power of the rural economy as a backstop, services cannot be provided. The peasant brethren should understand and make allowances for this. If some rural cadres spend withholdings on feasting and carousing, that is certainly not permissible and should be criticized.

Let us talk a little about the low prices the state pays for grain and cotton, and the high prices peasants pay for the means of production. Peasant brethren seem to have quite a few complaints about this, which is also understandable. Nevertheless, this has nothing to do with the rural cadres; they too would like to help, but are unable to do so. It should be realized at the same time that the Party and government are taking action to solve this problem little by little. If the peasants will not sell grain to the state until this problem has been solved, how can the country get through its difficulties? If the state cannot get through its difficulties, how will the peasants manage? Individual interests have to be subordinated to the overall interest, and minor principles have to be subordinated to major principles. We believe that the peasant brethren realize this.

Reports about rural cadres caring only about getting rich themselves and not leading the peasants to get rich in common, some rural cadres "disliking the poor but liking the rich," and some rural cadres having a superficial work style, and not doing things for the people should be looked into. Comrades having these shortcomings should correct them to gain the understanding and confidence of the peasant masses.

China has 1 billion people, so getting enough to eat is a matter of first importance. Leaders at all levels, all trades and industries, and all units must be concerned about agriculture and about grain. Concern for agriculture and concern for grain requires, first of all, concern for the peasants. It is necessary to listen to what they have to say and understand their complaints, help them solve difficulties in the development of agricultural production, particularly grain production, and to straighten out problems in their work. Rural cadres directly serve the peasants. They are more concerned for the peasants, better understand the peasants, and do more for them. Not only should peasant brethren understand rural cadres, they should also understand higher level departments and personnel in all quarters. At the top are a thousand threads, and beneath there is a single needle. Rural cadres have numerous duties and their work is hard. We should understand their hardships and difficulties, and support them in their work. Of course, peasants and rural cadres alike also have to understand and make allowances for the Party's difficulties, and the country's hardships.

Let us shout loudly: Long Live Understanding! Through understanding, let us improve relations between rural cadres and the masses, improve relations between the Party and the masses, and improve relations among people to bring about a great upsurge in the wave of reform.

[6 Dec p 1]

[Editorial by Xia Yang: "The Key Lies in Economic Development—Fourth in a Series of Chats About Relations Between Rural Cadres and the Masses"]

[Text] Analysis of some of the contradictions between rural cadres and peasants shows many of them to have economic overtones. The payments and withholdings issue, competition between rural cadres and peasants, and problems in running enterprises for the public benefit are direct or indirect manifestations of economic problems. In places that are comparatively economically developed where the peasants are relatively well off, there are somewhat fewer contradictions between rural cadres and the masses, and cadre-mass relations are better. Wherever the economy is relatively backward and the peasants comparatively poverty stricken, payments and withholdings are difficult, operating public benefit enterprises is difficult, and problems with rural cadres competing with peasants are more prominent. Contradictions are sharper, and relations between cadres and the masses are more tense. This is virtually a universal phenomenon. Therefore, if we are to improve relations between rural cadres and the masses so that they become harmonious, neither understanding or forbearance can be dispensed with, but the key lies in economic development, and the development of productivity.

Backwardness in productivity, a not well developed commodity economy, contrasts between cities and the countryside, with townships and villages being the worst off, is the basic situation in China. The situation is like this in our own Hunan Province, which is surpassed by some economically developed fraternal provinces and municipalities. Tremendous changes have taken place in rural villages as a result of 10 years of reform. Production has expanded; the economy has flourished; and the peasants livelihood has markedly improved, the degree of improvement being greater than that of cities. This is a fact that is obvious to all. Nevertheless, since the original starting point was lower, despite the very great development of the rural economy, it is still backward when judged by the standards of productivity. Though the peasants livelihood has improved greatly, the number of people who might be termed well off are not very numerous. Mostly the problem of having sufficient food and clothing has been solved, but in some especially needy places, even the problem of sufficient food and clothing has not been solved. Under these circumstances, when in addition to the payment of agricultural taxes and the sale of fixed procurement grain to the state, the peasants also have to shoulder various other payments and withholdings adding up to between 10 and 20

different kinds, each person having to pay tens of yuan, they naturally feel that they cannot bear it, and they complain. If production could be developed rapidly so that the rural economy had real strength, not only would it be possible to reduce peasants' burdens, but it would be possible to remove some of the peasants' hardships. In addition, once the economy had developed and the peasants became rich, if they were asked to carry a small load, they would not mind because they would have the money in hand and could pay it. Would it not then be possible to avoid many of the peasant brethrens' complaints and the cadre comrades' difficulties, relations between rural cadres and the masses being improved thereby?

In terms of the province as a whole, the collective economy of townships and towns and the peasant family economy have developed fairly well, but the village economy has generally developed rather poorly. This is because when agricultural production responsibility systems were first instituted, some places placed too much stress on dividing up property. They divided up aquatic breeding grounds and farms in villages, and some even divided up warehouses and meeting halls, retaining no resources at all. Today, a substantial number of rural economies are extremely weak. Not only are they unable to offer the peasants anything to relieve their troubles and hardships, but whenever the village wants to do anything, even when it does not take a lot of money, the peasants have to be assessed the expenses involved, and the money withdrawn from the peasants' hands. Therefore, how to develop the rural economy rapidly while also develop the peasant family economy, the township and town collective economy is truly a problem deserving of conscientious study. Policies consistent with realities in our province must be formulated and effective actions taken. If they are not, development of the province's rural economy will be rather difficult. At least, this will be the case overall. The extension of units and all levels, and particularly from the county level, into township and town branches is for the purpose of serving the peasants, and serving development of the rural economy, specifically to carry out policies that nurture and protect development of the rural economy. They should not just think about how they can get something from the rural economy and the peasants, but rather they should consider first how they can serve. Without enthusiastic, complete and timely service, there can be no development of the rural economy and the peasant family economy, and when one wants to get something, there will be nothing to get.

Development of the rural economy requires not just reliance on policies and reliance on science and technology, but reliance on investment as well. In recent years, investment in agriculture by all levels has been slight, and peasant investment in agriculture has not be large either. Basically principal is being consumed. Nowadays the peasants lack interest in investing further in grain fields, because they feel that grain prices are too low, growing grain is not profitable, and that losses are greater

than gains from reinvestment in grain fields. This problem has to be solved at once; if it is not solved, it will dampen peasant enthusiasm for growing grain and for reinvesting in grain fields. The government is now considering a solution to this problem, readjustment of the price system to include readjustment of grain prices. It should be said, however, that this is not a solution that will suddenly solve everything one fine morning; solution will require a process. Moreover, overall planning that takes all factors into account, and comprehensive arrangements will have to be made. One should never fail to reinvest in grain fields simply because grain prices are temporarily fairly low, because in the end it will be the peasants themselves who suffer. One should stand a little taller and see a little farther. Problems have to be considered in terms of overall needs for development of the agricultural economy and in terms of the peasants' own long-range interests, with a decision being made to make an investment. The peasants should invest; the state should invest; and all levels should devote serious attention to investment in agriculture, but counties and

townships are even more duty bound to do so. Only when there is increased investment in agriculture via numerous channels to maintain the reserve strength for development of agriculture can there be greater and more sustained development of the rural economy.

In summary, relations between rural cadres and the masses are tense in some places, and though there are very many reasons why, poverty remains the fundamental one. Improvement in relations between cadres and the masses will require efforts to dig out the roots of poverty, and the fundamental way in which to dig out the roots of poverty lies in the deepening of rural reforms, and vigorous development of the rural economy, particularly development of a commodity economy. As the township and town economy, the rural economy, and the peasant family economy take off, a genuine improvement in relations between rural cadres and the masses is bound to ensue along with further harmony in relations between the Party and the masses. This is a certainty.

**Reactions to 'Mainstream Proposal' Reported**  
40050141b Hong Kong MING PAO in Chinese  
24 Nov 88 p 2

[Article: "Initial Reactions From Various Walks of Life to Political System Group Mainstream Proposal (Newspaper Survey Conducted on 23 November 1988)"]

**Initial Reactions From Various Walks of Life to Political System Group Mainstream Proposal**

(Newspaper  
Survey Con-  
ducted on 23  
November  
1988)

	Method of Generating Administrative Officials			Percentage of Elected Legislative Council Seats			Develop- ment of Political Sys- tem After Decision by Ballot of Entire Elec- torate in 2011
	First Elec- tion	Second Elec- tion	Third Elec- tion	First Elec- tion	Second Elec- tion	Third and Fourth Elec- tions	
	400-man Chosen Committee	800-man Chosen Committee	800-man Elected Committee	(27%)	38.5%	(50%)	
T'an Hui- chu [6223 1920 3796] (Lichinhui [as printed] Chairman)	Acceptable	Acceptable	Acceptable	Acceptable	Not Bad	Acceptable	
Ch'eng Chieh-nan [4453 0094 0589] (38- man Plan Member)	Acceptable	Acceptable	Total elec- torate vote during the second elec- tion to decide the administra- tive officials for the third general elec- tion		Can be more or less con- sidered		Should be advanced to the term of second elec- tion admin- istrative offi- cials
Cheng Yao- t'ang [6774 5069 2768] (Director, Kunglienhui [as printed])	Acceptable (however, need an increase in popularly elected members of committee)	Acceptable	Generation of adminis- trative offi- cials through general elec- tion should begin		Acceptable	Should be advanced to the term in office of sec- ond election administra- tive officials	

Li Ch'i-ming [2621 0796 2494] (Secretary, Laolien [as printed])	Acceptable (but a 5-year term is too long. Should be synchronized with Legislative Council)	Unacceptable (Administrative officials should be generated by general elections)	Unacceptable (Administrative officials should be generated by general elections)	Too low a percentage (Should be a minimum of 38.5 percent)	Percentage too low	Percentage too low	If held, should be during term of office of second election administrative officials
Wu K'ang-min [00702 1660 3046] (NPC delegate)	Acceptable	Acceptable	Time between elections still too long		Acceptable		Election time should be flexible, but should not be delayed until 2011
P'eng Chen-hai [1756 7201 3189] (Lifachu [as printed] member)	Acceptance depends on method of composing the committee	Should be looked at during first term of office; no need to set specific method; should retain flexibility		Percentage somewhat low	Should not set specific percentage too early	Should be looked at in 1999	
Yang Sen [2799 2773] (Spokesman, Mints'uhui [as printed])	Unacceptable (Administrative officials should be elected through general elections)	Unacceptable	Unacceptable		Unacceptable		Unacceptable
Chu P'ei-ch'ing [2612 1014 1987] (Deputy Chairman, Chiehch'ing Hsiehhui)	Acceptable		Pace of development too conservative		Pace of development too conservative. Number of generally elected seats in Legislative Council should be no less than 33 percent	Need rigid timetable	



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